British Columbia Telephone Company

Annual Report 1984

Table of Contents

Cover

When it opens, on May 2, 1985 — a full year before the official opening of Expo 86 — the glittering geodesic dome of The Expo Centre will house a 550-seat Omnimax theatre and the scale model of the entire Expo site to provide visitors with a preview of the many features and attractions of the world exposition on transportation and communication. The Expo Centre will become the theme pavilion for futuristic forms of transportation during the five-month course of Expo 86 and, after the exposition ends in October 1986, the dome will remain as a permanent landmark on the downtown Vancouver skyline.

British Columbia Telephone Company

Comparative Highlights

For the years ended December 31

		1984	1983	Increase (Decrease)
Revenues, Expenses and Earnings *($ Millions)*	Telecommunications operations			
	– revenues	**$1,147.8**	$1,091.3	5.2%
	– expenses	**$ 851.3**	$ 806.4	5.6%
	Manufacturing operations			
	– sales	**$ 170.4**	$ 206.5	(17.5%)
	– costs and expenses	**$ 174.6**	$ 194.4	(10.2%)
	Combined operating earnings	**$ 292.3**	$ 297.0	(1.6%)
	Ordinary share earnings	**$ 82.1**	$ 86.2	(4.8%)
Ordinary Shareholders' Items				
	Average shares outstanding *(Thousands)*	**39,728**	36,561	8.7%
	Earnings per share	**$ 2.07**	$ 2.36	(12.3%)
	Dividends declared per share	**$ 1.66**	$ 1.60	3.8%
	Equity per share	**$ 18.43**	$ 17.78	3.7%
	Return on average share equity	**11.52%**	13.77%	(16.3%)
Invested Capital				
	Average invested capital *($ Millions)*	**$2,081.6**	$1,952.9	6.6%
	Return on average invested capital	**10.68%**	11.18%	(4.5%)
Other Statistics				
	Gross capital expenditures *($ Millions)*	**$ 352.4**	$ 379.8	(7.2%)
	Internally generated funds *($ Millions)*	**$ 239.2**	$ 248.8	(3.9%)
	Percent of expenditures internally generated	**68%**	66%	3.0%
	Customer lines in service	**1,391,308**	1,360,588	2.3%
	Customer line gain for the year	**30,720**	35,963	(14.6%)
	Long distance calls completed *(Millions)*	**180.2**	173.5	3.8%
	Number of employees	**16,576**	16,795	(1.3%)

The Chairman's Letter

At the start of 1984, I had hoped that we could erase the word "recession" from our business vocabulary and replace it with "recovery". This has not been possible for this Company nor for virtually any other company in British Columbia.

Although some other parts of Canada made progress in moving into the recovery phase of the economic cycle in 1984, the severe damage inflicted on British Columbia by the recession and the limited opportunities afforded its resource-based industries made it impossible for this province to participate fully in the Canadian recovery which, in itself, has been relatively weak and sluggish.

As a result, B.C. Tel has had its performance and short-term prospects curtailed, in spite of the Company's best efforts to produce financial results commensurate with its potential. They are disappointing and well below what our shareholders should expect and deserve.

It is our intention to improve those results and I am confident that, over the long term, we will be able to do so.

My confidence in the long-term prospects for this Company rests, in part, on the knowledge that B.C. Tel is well-situated in an industry that will grow in magnitude and importance with each passing year. I am confident that B.C. Tel's role in the industry will be substantial and rewarding.

My confidence also rests on an aspect of performance that goes beyond the bottom-line financial results. In 1984, we demonstrated that, in spite of recessionary pressures, we were able to maintain and extend the good and varied services demanded by the public.

To do this we invested large amounts of money for equipment and facilities in the telephone operations of the Company to meet existing and future demand. Regardless of short-term setbacks to the economy, we must continue to provide a reliable, sophisticated telecommunications infrastructure as a vital part of this province's economic base. This requirement for substantial construction programs will continue.

In 1985, we must face, once again, competition in the money markets for the funds required to finance part of our current construction program. In order to compete prudently and successfully for those sums, the financial health of the Company must be improved.

Having taken all responsible measures to cut our costs and explored all the possibilities of improving our revenues, we have had to seek regulatory approval for a rate increase to generate additional revenues. Our application, detailed in the Report of Directors, is being heard in Vancouver in February and March. A decision is expected in April of this year.

At this time, it appears that the economic recovery for the province and the country will be slow and gradual. Obviously, our Company will be affected by the rate and strength of whatever economic progress is achieved. We share the concerns of all Canadians regarding the economy but must also take into account those particular developments related to our industry alone which have a bearing on the attainment of the long-term goals we have set for B.C. Tel.

These developments are in the areas of competition and the speed of technological change in telecommunications.

At present, parts of our revenue base are being attacked by existing competition. We are attempting to meet these emerging challenges. Of great concern is the possibility that a major constituent of our total revenues, that derived from our long distance services, will become vulnerable through competition which we regard as unjustified and, in some respects, unfair. This

possibility is discussed in the Report of Directors.

A basic concern, and one that is of great significance to the public interest, is that of the pricing of local telephone service relative to its cost.

The issue here is one of philosophy not of methodology. The central question is to what extent can, or should, one part of our business — long distance services — support another part of our business — local service, for the maintenance of a socially desirable condition. That condition is the availability of telephone service at affordable prices. This was one of the first goals of the telephone companies of North America and one that has been attained for so long that any threat to its existence strikes at the social fabric of our nation.

If the advent of new or increased competition threatens the continuing ability of the telephone companies to provide such service, the implications for our society are serious. The matter is complex in the extreme and its resolution will require the most enlightened regulatory consideration and the most responsible industry reaction if the public interest is to be served.

Ultimately, in our opinion, it will be market forces which will determine the nature and scope of telecommunications in Canada and it will be the rush of technology which will forge and fuel the market forces. Technological development creates its own momentum and, judging by events to date in Canada and elsewhere, this momentum has the strength to alter traditional patterns of evolution and growth in our industry.

We believe that there will be benefits which will accrue to the public interest once a fully competitive marketplace comes into existence and our corporate philosophy supports the principle of competition. However, given the vital importance of the telecommunications infrastructure to our present society, the public interest requires the safeguard of a continuing measure of regulatory control during the transitional period between full monopoly and total competition.

Regulated competition is obviously a contradiction in terms; yet we see no other possibility while the industry is undergoing such rapid transformation. So long as regulated competition is deemed to be in the public interest, we are prepared to compete in any or all areas designated for competition but such competition must be fair. The regulations and conditions governing it must apply equally to all competitors.

In the competitive world as it was in 1984, Business Telecom Equipment (BTE) continued to make good progress and more than justified the decision to move aggressively into the business terminal equipment market.

Concerning Microtel Limited, we are confident that the original decision to diversify B.C. Tel through the acquisition of the manufacturing, marketing and research-and-development capabilities presently embodied in Microtel was a good one. That decision was a clear signal to our own people and to those in the telecommunications industry that B.C. Tel intends to focus its resources to develop products and services that will meet the needs of our customers both here and abroad while broadening the province's manufacturing and technological base. Microtel's presence within the Company confirms that intention and its strategic direction should result in substantial benefits to the Company.

Marketing is playing an increasingly important role in the telephone operations of B.C. Tel. As shareholders will note from the reports from the five operating Areas of the Company, there is widespread determination to improve revenues through innovative approaches and new techniques in marketing the services and products of the network.

It is also evident from these Area reports that the task of extending and improving our services was a major part of their responsibilities and that, within the constraints of reduced budgets, the task was accomplished.

One outcome of the need to contain or reduce expenses was the requirement for a reduced work force. As described in the Human Resources section of the Report of Directors, this is being accomplished through attrition and the various early retirement incentive programs for management and non-management employees. The process has, in my opinion, reflected well on the Company and, more important, treated our employees fairly and with respect.

There has been, in the past three years, a steady year-over-year improvement of relations amongst all employees which I find most encouraging. Our employees responded to the many challenges and frustrations of the past year with spirit and determination, accepting and often surpassing their objectives while continuing to use initiative and imagination to overcome obstacles. Our employees are, without doubt, our greatest strength and the firm foundation on which I base my optimism for the future.

Over the past year, I have watched our management team perform admirably as it weathered storm after storm while continuing to direct its energies and talents to the attainment of our long-term goals. In the face of urgent short-term pressures, such as those produced by significant monthly fluctuations in revenues, the possibility of over-reaction always exists. It is to the credit of our management team that the proper mix of tactical action and strategic direction was utilized to enable the Company to operate efficiently throughout a most difficult year.

Members of the Board of Directors continue to provide invaluable guidance and counsel, all of it of great assistance in safeguarding the interests of our shareholders, employees and customers.

I wish to acknowledge, in particular, the splendid contribution made by Mr. W. T. Brown who retires from our Board in March and whose advice I have always found to be well-balanced and of great value to the Company.

G F MacFarlane

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Report of Directors

In this ninety-third annual report of British Columbia Telephone Company, your directors are reporting on a company whose principal business remains the supply of telephone service to the people and institutions of British Columbia. In addition to this core element of telephone operations, B.C. Tel has the marketing-manufacturing-research capabilities of its subsidiary, Microtel Limited, and the competitive capacity of Business Telecom Equipment (BTE), a Company division which sells business terminal equipment on the open market.

B.C. Tel is totally involved in communication — either in the transmission of information in the form of voice, data or image, or in the supply and maintenance of the equipment and services needed to make communication possible.

B.C. Tel is now structured and directed to reap returns, nationally and internationally, from many of the facets of the Information Economy and, within British Columbia, to remain the principal supplier of telecommunications products and services.

It is the Company's intention and strategy to respond to new or increased competition by seeking opportunities to achieve financial results which will be in excess of regulatory limitations — to the obvious benefit of our shareholders.

The Company

Three factors influenced the Company's performance in 1984. These were the continuing adaptation and exploitation of new technologies within the Company and in the telecommunications industry generally; new and increasing competition in several areas of the Company's operations and a lacklustre economy and business climate. Of these, the most influential was the discouraging rate of recovery from the recession.

On the telephone operations side of the Company, a weakness in long distance revenue growth has limited the modest gains effected in extending service to new customers and improving sales of the network's products and services. In the business terminal equipment field, BTE has performed well. Microtel, on the other hand, has had to pay the short-term price of preparing its portfolio of products and services for long-term profitability.

FINANCIAL RESULTS

The Financial Review, beginning on page 22, is a detailed presentation of the Company's financial performance for 1984.

The Company had earnings of $2.07 per ordinary share and a return on common equity of 11.52% in 1984, compared with earnings of $2.36 per ordinary share and a return on common equity of 13.77% in 1983.

The Company considers the 1984 results to be unsatisfactory and is seeking means — some of which are described in other sections of the Report — to improve revenues and further reduce costs in 1985.

Early in 1984, the Company issued $70 million First Mortgage Bonds. The proceeds were used to reduce short-term obligations related to the construction program.

In September, the Company successfully concluded an equity offering with the sale of some 4.8 million ordinary shares at a price of $20.375 per share.

Of significance is the fact that the Company has been able to reduce its consolidated debt ratio from 54% to 52%.

Dividend Increase

To partially offset the effect which inflation has had over the past three years, the quarterly dividend on ordinary shares was increased from $.40 per share to $.43 per share, effective October 1, 1984.

CORPORATE REORGANIZATION

There is consensus at all levels of the Company that the major reorganization which was approved in 1982, implemented in 1983 and in full operation throughout 1984, contributed substantially to the progress the Company was able to achieve in the past year. This restructuring and redirecting of a well-established company was essential if B.C. Tel was to continue to prosper in today's fast-changing competitive business environment. The three segments of the Company — Telephone Operations, Microtel and Business Telecom Equipment — are designed to enable the Company as a whole to take full advantage of the Information Economy and to respond quickly and positively to the challenges it presents.

CORPORATE MANAGEMENT GROUP

One of the resources that was put in place as part of the reorganization was the Corporate Management Group consisting of executives and support staff from corporate finance, corporate development, corporate communications and the general counsel.

The group acts as a closely-knit team to supply timely and accurate management information to the chief executive officer and to make recommendations regarding the

allocation of resources balanced between immediate priorities and the Company's long-term business directions and strategy. Its goal is to position the Company for profitable future growth. It also assesses the potential benefits to the Company of such opportunities as those afforded by the Federal Government's decision to sell its ownership shares in Telesat Canada and Teleglobe Canada.

In that connection, the Company supports the principle of ownership of these communications entities by members of the telecommunications industry rather than governments and is exploring the options open to B.C. Tel.

The potential opportunities inherent in the privatization of Teleglobe Canada in particular have considerable appeal in that they would provide an entry, through an already established and developed vehicle, to one of telecommunications' strongest growth areas — the international overseas market.

The distinctive, landscaped Headquarters Building as it will look once the nine-storey addition is completed later this year.

CORPORATE HEADQUARTERS ADDITION

A nine-storey addition to the Company's headquarters building in Burnaby is currently under construction and will be ready for occupancy before the end of 1985. This second phase of the headquarters complex will provide an additional 14,000 square metres of office space and 421 automobile parking spaces as well as a second computer centre.

REGULATION AND COMPETITION

For more than half a century, B.C. Tel has been subject to regulatory control by federal regulatory bodies. Regulatory control is exercised by the Canadian Radio-television and Telecommunications Commission (CRTC).

In the past, regulation of B.C. Tel has been concerned primarily with those areas of the Company's activities which were conducted in the public interest under conditions of monopoly — notably the provision of basic telephone service. Today, directly or indirectly, regulation and the results of regulatory decisions pervade practically every area of the Company's activities.

It is important that investor-owners of B.C. Tel be aware of the Company's concern regarding recent regulatory directions and decisions and the threat that a changed philosophy of regulation may hold.

In the monopoly aspects of the telecommunications industry, the regulator has acted in the public interest, monitoring the monopoly telephone companies' actions, ensuring that customers receive quality service and approving just and reasonable rates for service. The objective of the regulator and of the companies has been to ensure the continuance of a high-quality, reliable, ubiquitous network and to preserve revenues in the interest of universal and affordable service.

Recent regulatory decisions have introduced direct market competition in some hitherto regulated areas, thus limiting the degree of control or influence which either the regulator or the regulated company can exert over the nature and scope of the industry.

To date, decisions by the regulator have permitted competition for terminal equipment, radio paging services, interconnected private and public mobile services as well as some interexchange services. The total effect of these decisions is that regulated carriers such as B.C. Tel are already faced with creeping competition which will, inevitably, drive prices closer to costs and diminish the sources and amounts of contribution for the support of local services.

This contribution comes from our long distance services whose prices are set substantially above costs, as they are in other regulated telephone companies, so that the social goal of universally affordable local service can be achieved. In effect, our current pricing practices have resulted in a flow of income benefits from the users of part of our service to those of another — from long distance to local, from urban to rural and from business to residence users.

It is this imbalanced price structure, particularly in the area of interexchange (long distance) service, which is proving so attractive to potential competitors who do not have and would not assume the on-going service commitments and obligations to local service. The question of allowing increased competition in the provision of long distance services in Canada is currently being addressed by the CRTC in the course of its interexchange hearings.

Interexchange Hearings

In October, 1984, the CRTC began a series of hearings and associated activities in connection with two applications for increased competition with B.C. Tel. One, from CNCP Telecommunications, requested permission to interconnect with B.C. Tel's local switching system for the purpose of providing competing long distance telephone service. The second application, from B.C. Rail, requested permission to provide private line voice and data services within British Columbia in competition with B.C. Tel.

Although these applications were the basic issue before the Commission, a great deal of attention was focused on the broader issues of the impact of competition on quality of service, universality of service and on those telephone companies not directly affected by the applications, as well as on the principle of rate rebalancing.

Both B.C. Tel and Bell Canada argued that rate rebalancing, where

both long distance and local rates are priced closer to costs, should precede any further competitive entry to the long distance market.

It is the Company's opinion that a rebalanced rate structure established in advance of further competition and the adoption of a program of pricing alternatives introduced in an orderly manner would moderate the impact on subscribers, particularly those who would not benefit from competition. The Company's position is that it does not oppose fair competition but does oppose competition in those portions of our business that have been priced well above costs to achieve social goals.

The public hearing portion of the regulatory process involved three regional hearings and a main hearing. Following the public hearings, the Commission has received written arguments from the applicants, the respondents and intervenors. A decision is expected later in 1985.

The outcome of this hearing is of great importance to this Company since more than half the Company's total revenues come from its long distance marketing activities. But apart from its obvious implications for the Company's financial performance, the outcome of the hearing could alter irrevocably the structure and scope of Canada's telecommunications industry and place in jeopardy the telephone companies' long-held goal of affordable, universal telephone service.

In the Company's opinion, a decision on matters of such consequence should be deferred until there is a national telecommunications policy in place and should then be made consistent with that policy.

TELECOMMUNICATIONS POLICY

In 1984, the Federal Department of Communications undertook a far-ranging study of telecommunications in Canada. The end result of the study will be a series of observations and recommendations designed to guide and assist the federal government in formulating a relevant telecommunications policy for Canada. B.C. Tel participated in the study, as it has in previous exercises in policy formulation. It is to be hoped that, given the urgent requirement for a national policy, the results of this study will find speedy reflection in new legislation.

OTHER REGULATORY ACTIVITY

Interim Rate Application

Late in 1983, the CRTC informed the Company that the Commission would not be able to hear any application for a general rate increase before February, 1985. Given this lengthy regulatory timetable and the extent of the Company's revenue requirements for 1984, B.C. Tel applied on January, 27, 1984 for an interim rate increase of approximately 6% on local services and on long distance services within British Columbia. Recognizing that some degree of rate relief was required to enable the Company to finance its 1984 construction program, the CRTC approved an increase of 4%, effective July 1, 1984. It was estimated that this interim increase would generate additional revenues of some $12 million between the date of implementation and the year-end.

This increase was more than offset by the failure to realize the $40 million growth in revenue which was forecast in the application — an indication of the slowness of the recovery and its relative weakness.

General Rate Application

On October 26, 1984 B.C. Tel filed an application for approval of a general increase in rates to become effective May 1, 1985. If approved and implemented on the date requested, the increase should generate an estimated additional $38.5 million in revenues — a 3.1% increase in the Company's total revenues in 1985.

While single-line residential and business rates would increase by approximately 15%, the combined impact of local and long distance rate adjustments for the average single-line residential customer would range from approximately 3% to 10%, depending on the rate group for a particular exchange.

The application recognizes the need to decrease reliance on long distance revenues to meet the majority of the Company's revenue requirements, since long distance revenues are subject to fluctuations in the economy of the country and the province.

A decision on this application which is currently being heard in Vancouver is not expected until April.

New Competition

In mid-1984, competition appeared in another area of the Company's business. New competitors can provide their customers in the Vancouver area with a means of accessing the 'discount' long distance rates which are prevalent in the United States.

B.C. Tel has requested the CRTC to permit an amendment of the regulations which would ban such competition unless the competitors entered into interconnect agreements with the Company and, further, it has requested changes to the rates chargeable for calls between Canada and the United States so as to make them competitive.

The Network

The telephone operations of the Company are the largest single source of revenue for B.C. Tel.

Total operating revenues for the network in 1984 were $1,147.8 million compared with $1,091.3 million in 1983 while total operating expenses were $851.3 million compared with $806.4 million the previous year.

Long distance revenues were $644.7 million compared with $604.0 in 1983 — a growth rate of 6.7% compared with 1983's growth rate of 8.7%. This disappointing improvement reflects the economically restricted use of the long distance network but a slightly higher average revenue per message.

To illustrate how sharply economic conditions impact on an industry such as ours which is closely tied to business activity, the growth rates of long distance calls for 1984 are compared below with the growth rate for one of the

relatively high, pre-recession years — 1980.

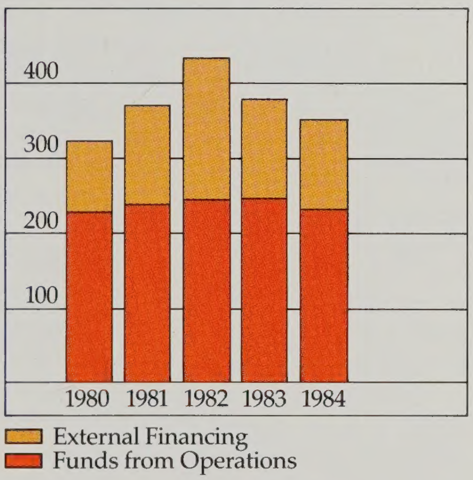
The growth rates have been broken down into categories according to the destination of the calls.

Growth in Long Distance Calling Volumes

Destination	Percent growth 84/83	80/79
Within B.C.	2.6%	15.9%
To Alberta	3.5%	22.4%
To elsewhere in Canada	9.4%	24.0%
To U.S.A.	8.5%	15.5%
Overseas via Montreal (Europe)	9.8%	26.9%
Overseas via Vancouver (Far East)	14.5%	29.0%
Total growth all categories	3.8%	17.0%

It should be noted that, although the 1984 growth was modest, it was, nonetheless, growth that helped contribute to the Company's overall performance. The figures also illustrate the continuing strength and potential of the Pacific Rim market. Opportunities in this area are being pursued by the marketing sectors of the Company.

Source of Funds Used for Construction *($ Millions)*



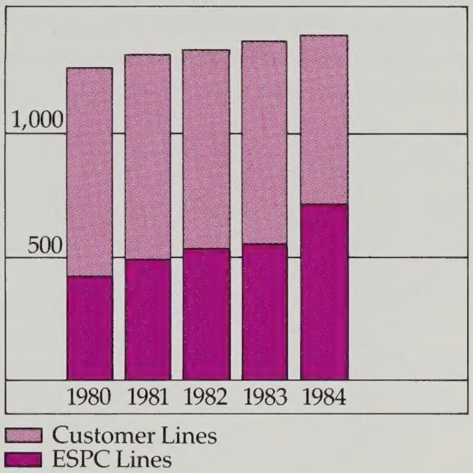
CONSTRUCTION

Each year the Company must raise large sums of money to enable it to continue to provide primary telephone service, modernize its existing plant and achieve its operating and service commitments.

The construction program for telephone operations amounted to $338.9 million. This figure is down significantly from the $371.8 million invested in 1983 and below the original estimate of $368.8 million for 1984.

Much of this reduction can be traced to the weak economic recovery and a resulting decrease in demand for growth. However, large construction expenditures must continue to be made to maintain service quality and keep pace with the benefits made possible by the new technologies.

Electronic Stored Program Control (ESPC) Conversion *(Thousands of Lines)*



Electronic Stored Program Control (ESPC) Conversion

There was a substantial increase in the number of customer lines serviced by electronic switches in 1984. At year-end, some 50% of customer lines were connected to this advanced technology and the Company estimates that 90% of its customer lines will have this service by the end of the decade.

For the most part, the increase in ESPC lines reflects the growing number of GTD-5 digital electronic switches installed during the year. These advanced switches, manufactured by Microtel, are rapidly becoming the mainstay of the network. Reports from the various operating areas of the Company, below, detail some of the 20 GTD-5 installations made in 1984.

As an example of the rapid rate of change in the technologies of the telecommunications industry, fibre optics were considered to be revolutionary only a few years ago, yet today B.C. Tel now uses fibre optics routinely where appropriate as the most efficient way of handling inter-office switching and long distance calls. Plans are currently being developed to introduce this technology into the customer access network in the next year or two.

Improved Customer Services

The network monitoring and support systems of the five regional network control centres were upgraded during 1984 to improve customer service. By means of electronic surveillance of long distance circuits, problems can be identified instantly and affected calls rerouted to trouble-free lines.

Routine testing of trunks throughout the province to maintain quality of service has been improved through the use of a centralized automatic routing of trunks system (CAROT). CAROT tests inter-office trunks to identify faults before they become failures and helps to ensure maximum utilization of the facilities.

Customers will also benefit when the new Facilities Management System (FMS) becomes fully operational. The new system, currently undergoing field trials at several central offices, maintains outside plant and switching data and provides an accurate on-line inventory of facilities. For customers, the system streamlines the process of establishing or changing service by minimizing facility assignment errors and thus minimizing associated service reworking and customer callbacks and billing errors.

Following the field trials, FMS is scheduled for full implementation in about 360 central offices and service centres across the province, beginning this spring.

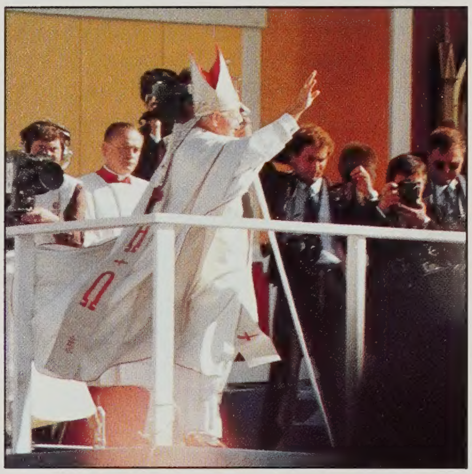
For the convenience of customers, the new 'zero-plus' dialing service was extended further in 1984 and is now available to 72% of customer lines. This service reduces the amount of operator assistance required on such calls as third-number, collect, person-to-person or calling card calls.

Verification of third-number calls made from coin telephones continues to reduce the number of fraudulent calls and, at the same time, protects customers who might be wrongfully charged for these calls. In this connection, the issuing of B.C. Tel Calling Cards has met with good response from customers, with more than a quarter of a million cards now

issued. The card allows the customer to charge long distance calls anywhere in Canada, the United States and many other parts of the world to a home or business number at regular operator-assisted rates.

Customer Service Survey

A fifteen-month project related to customer service was completed in mid-1984. The survey, requested by the CRTC, attempted to determine customer attitudes toward B.C. Tel's service and the results indicate that more than 90% of our customers are satisfied with the overall service they receive. In connection with our application for interim rate relief, the CRTC noted that its decision granting rate relief was strongly influenced by what it termed 'generally satisfactory' service.



There are many facets of B.C. Tel's telephone service and in 1984 some of the more interesting and challenging of these included the preparations that were made for the two-day visit of His Holiness Pope John Paul II to the province in September.

His Holiness took part in two public events in the Lower Mainland — one a Papal Mass for some 200,000 people at the Abbotsford Airport and the second a 'Celebration of Life' at the B.C. Place stadium. At the Papal Mass site, B.C. Tel personnel were responsible for installing and maintaining complex telecommunications facilities on a tight schedule. The network was called upon to transmit coverage of the Pope's visit and his remarks to a world-wide radio-television network, while other operating groups in the Company did their part to ensure a successful event.

Elections were a feature of 1984 — federally and at the local level in British Columbia. Each election called for extra efforts on the part of telephone operations to meet the demands — usually on very short notice — for installation of switchboards and extra lines and sets.

The British Columbia Summer Games, held in Burnaby in 1984, also called for special efforts by the Company to provide communications facilities for coverage of this popular event.

NETWORK MARKETING

In the past, B.C. Tel's management and operating style had been shaped by the Company's position as a monopoly. Customer needs were addressed on an 'all-things-to-all-people' basis. The advent of competition and the introduction of new technologies changed the Company and its operating philosophy.

B.C. Tel has recognized the importance of these new forces and responded with the total restructuring and reorganization of the past two years. Nowhere has this change been more marked than in the area of network marketing.

Because the network is the principal contributor to B.C. Tel's overall revenue, the appearance of competition in the area of telephone operations has been taken very seriously by the Company. The marketing of some network services such as local and long distance services, specialized business services and the services of the data networks has been assigned top priority by the Company.

Moving successfully from a monopoly position into the world of competition meant that B.C. Tel's people had to adopt new attitudes, gain new expertise and accept new responsibilities as the emphasis in network sales shifted from selling hardware to selling the application of that hardware. Part of the challenge is to deal effectively with the wide range of product profitability, focusing on those products with the highest margins while ensuring that those products at the low end of the profitability scale are either assigned additional marketing support or, if warranted, removed from the portfolio.

This emphasis on the importance of successful marketing is felt right across the full range of services and products offered — from the extensive research and design that goes into a successful bid for major accounts, such as those of the federal and provincial governments, to the attention paid to modern marketing practices and techniques used in our retail Phone Mart stores for consumer products.

As a result of a CRTC decision, customers now have the choice of buying their equipment for single-line residential or business use from the Company or from one of its competitors — or they may choose to continue to rent such equipment. As part of this decision on 'unbundling' rates, monthly telephone charges are now broken into two separate charges, one for accessing the network and, if applicable, an equipment rental charge.

As the reports from the individual operating Areas of the Company indicate, the challenge of selling network services has been accepted with enthusiasm by network sales personnel. Some of their success stories are included in these reports.

New Customer Services

We are constantly striving to bring new and innovative services to the telecommunications marketplace. In 1984, we introduced a more comprehensive line of products that were brought on stream for the residential customer and we installed Spacetel satellite services to provide remote locations with telephone service comparable to that received in major cities.

Integrated Business Services (IBS), a fully digital state-of-the-art technology, was implemented for the federal government in June. This same service will be made available for multiple-subscriber applications in 1985.

Voice Messaging Service (VMS) went through trials in 1984. VMS is a dial-up service that allows users to record, store and forward messages in their own voices to other users when direct communication cannot be established.

Our network was also enhanced with the introduction of trials for new services. The 900 service, a

new way to register a mass market vote easily and economically, was approved for a two-year trial starting in July. Earlier, in February, iNET 2000, an intelligent network that provides a single point access to hundreds of electronic databases and information services, was given CRTC approval for trial.

There were improvements in existing service offerings in 1984 as well. WATS, a bulk-rated, discounted long distance service for business, was expanded from Greater Vancouver to virtually all of B.C. Tel territory. The 800 service was made even more beneficial and attractive to smaller businesses through reductions in entry level and tapered overtime rates. The 800 service was also approved for Canada-U.S. calling.

HUMAN RESOURCES

During 1984, the Company intensified its efforts to encourage good relations among all its employees by improving communication and addressing problems on the basis of mutual concern. As noted in the Chairman's Letter, each of the past three years has seen an improvement in relations and a broadening of the areas of cooperation.

It was not an easy year for the Company or for its employees — management and non-management alike. The strictures placed upon the Company by its economic environment dictated changed working conditions in some cases, increased work loads and responsibilities in others and a requirement for a smaller total work force.

In approaching the challenge of reducing its work force, the Company has honoured the terms and spirit of its contract with the bargaining unit employees and endeavoured to reach its goal in a responsible manner.

In addition to utilizing the effect of normal attrition, the Company has offered incentives to management and non-management employees in telephone operations and BTE to choose early retirement.

In 1984, a total of 120 management employees chose early retirement and, early in 1985, a further 177 non-management employees took this option.

Contract Negotiations

The Company's agreement with the Telecommunications Workers Union (TWU) representing more than 11,000 employees expired December 31, 1984. Negotiations for a new contract began some months previous to the expiration date. Good progress has been made to date and only a small number of issues remain in the conciliation process.

Employee Survey

In its on-going efforts to become more responsive to the ideas and aspirations of its employees, the Company initiated an employee opinion survey which generated a very high response rate — indicative of the involvement of our employees with the Company and its operations. The first phase of the program, involving some 2,700 management employees, was completed late in 1984. The results are currently being analyzed and the attitudes, perceptions and opinions set out in the survey will assist senior management in making future plans. The survey will also establish a benchmark against which the future effectiveness of policies and programs can be measured. It is hoped that eventually non-management employees will participate in the survey as well.

Communication

Improved employee communications flow through such channels as the award-winning *B.C. Tel News*, the newly introduced *Video Newsmagazine* and the communication network which utilizes the Envoy 100 system, DEC 10 and CRIS. The Speak Out program continues to provide employees with authoritative answers regarding problems, issues and suggestions. B.C. Tel's efforts in some of these communication areas have been recognized by a number of outside organizations.

Training and Education

The nature of the telecommunications industry and the changing demands of our business environment have made training and retraining essential to the Company's efforts to retain its leadership role and extend or improve the skills of its employees.

The Company's direct educational expense now amounts to approximately $7.5 million per year.

In its first full year of operation, the new Education Centre in Burnaby demonstrated its value to the Company and its employees. The Centre provides courses of various lengths in a wide variety of subjects including modern technology, engineering, management training and finance.

Some 11,000 students took courses at the Centre in 1984. The Centre is one of the largest technical training institutions in the province and one that is held in high regard in the field

The Company considers the retraining programs of particular benefit in that they enable employees whose traditional telephone skills may become out-dated to learn relevant new skills which will fit them for the high-technology jobs as they develop within the Company. Among those who have benefited from the retraining programs are a number of central office maintenance people who have retrained for electronic office maintenance; outside plant people who have retrained for fibre optics work and employees from a variety of traditional telephone jobs who have retrained as programmer-analysts for work in management information systems.

Health Services

B.C. Tel currently provides the largest occupational health program in British Columbia. Health services are made available to B.C. Tel employees through eight health centres, each staffed with a minimum of one health nurse. In addition to assessment and treatment of minor injuries and illnesses, health services offer a number of programs designed to help employees lead safer, fuller and healthier lives on and off the job. These include periodic health evaluation, health education and safety programs including defensive driving. There is a strong emphasis on physical fitness and lifestyle change — such as the Clean Air Program and the Employee Assistance Program. This latter program offers employees counselling for personal crises, chemical dependencies and other problems related to stress.

THE OPERATING AREAS

The new 'operating area' concept, the major part of the Company's reorganization of telephone opera-

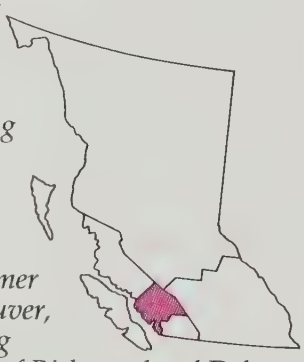
tions, was in place throughout 1984 with results that confirm the high expectations of its planners and justify the degree of dislocation and adjustment which was inevitable with changes of this magnitude.

B.C. Tel's operating territory, which covers virtually the entire province, has been divided into five operating areas. Each is headed by an Area General Manager who is responsible for operations and for the financial contribution each Area is expected to make to the general operating income of the Company.

In practice, the five Areas have become largely autonomous enterprises managed according to regional needs and responsive to them while enjoying the support of technical, administrative and network marketing staff in the Company's Headquarters.

To a greater or lesser degree each Area was faced with the twin problems of slow growth of revenues and the need to contain expenses. Each followed the Company policy of reducing its work force through attrition and early retirement incentives while making rigorous efforts to contain or reduce its other expenses. To bolster revenues, the Areas paid increased attention to the marketing of network services such as OutWATS, 800 Service, remote call forwarding, enhanced business services and the services of the data network as well as the normal local and long distance services.

Burrard Area



From its headquarters in the William Farrell Building in downtown Vancouver, Burrard Area serves some 426,000 customer lines in Vancouver, the neighboring municipalities of Richmond and Delta to the south, the North Shore and the Sunshine Coast as far north as Powell River.

Because Burrard contains a very high concentration of business accounts including the corporate or regional headquarters of some of B.C. Tel's largest customers, the marketing of network services assumes particular importance in this Area. To establish or maintain a fruitful relationship with these large customers, B.C. Tel and Telecom Canada have taken a number of initiatives.

Burrard serves as the Company's link with the National Systems Group (NSG). This group was formed by Telecom Canada to provide Canada's largest telecommunications users anywhere in Canada with a single point of customer contact for voice, data and image communications requirements. B.C. Tel's customers served by NSG include CP Air, Cominco, MacMillan Bloedel, and Pacific Western Airlines.

A second initiative taken within Burrard was the formation of the Business Communications Group which provides a unified approach to meet the complex communications requirements of our larger customers.

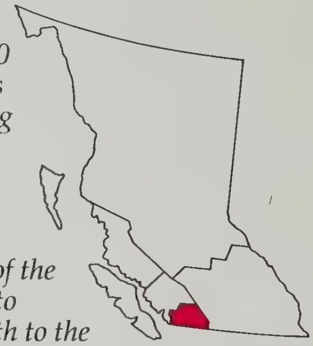
These innovative approaches together with the dedicated efforts of employees from Customer Service, Business Communication Group (BCG), Sales Support, Engineering, Network Service, Operator Services and Sales have had significant impact on a number of 'competitive wins' achieved by the Area and the Company.

Among these were the federal government's new centrex which accommodates the total communications requirements of the federal government in Greater Vancouver and the signing of a contract to be the major supplier of telecommunications requirements for Expo 86.

Apart from a substantial measure of success in the competitive aspects of its activities, Burrard made progress in improving service for its residential customers in the heavily populated urban areas as well as in smaller centres. Three GTD-5 switches were cut into local service in 1984 with further conversions planned for 1985. There were large investments of time and money in the upgrading of the cable distribution system and many other improvements affecting the general level of service throughout the Area.

The Burrard Area reflects the Company's commitment to provide value for our customers through the provision of the extra measure of service that maintains high levels of customer satisfaction.

Fraser Area



Fraser Area serves 378,000 customer lines in an operating territory that extends from Burnaby east through communities of the Fraser Valley to Hope and south to the United States border — an area which was marked by explosive growth in the '60s and '70s.

Fraser Area has found that the new organization with its increased local authority makes it possible and practical to experiment with new ideas and approaches on a small scale. If successful, they can be expanded throughout the Area — occasionally to the network as a whole.

It was the suggestion of a Fraser operator, for example, which led to the network's adoption of verification of third-number calls from coin telephones. An installer-repairman suggested that I&R people be equipped with catalogues and sales aids since the I&R person at work on the customer's premises has an excellent opportunity to suggest the sale of other B.C. Tel products and services. The idea was adopted and extended.

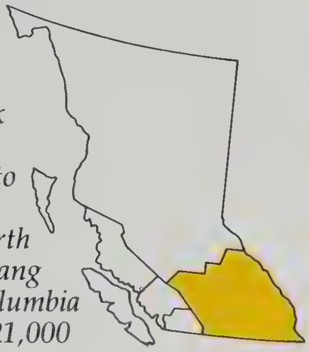
Another sales initiative was Direct Marketing, a program involving line and staff which Fraser has found to be a cost-effective way of selling network services to the large number of customers who could not be served economically by the outside sales force.

Such innovation, employees' suggestions and increased marketing activities enable Fraser to offset to some degree the negative impact of the economy.

As the first Area to place a GTD-5 switch in service, Fraser can

report good response from customers to the improved service. Fraser now has four GTD-5 machines in service, one of which is the largest of its kind in Canada, serving 14,000 lines, and is an important element in a general improvement in service which enabled Fraser to meet or exceed its service level objectives in 1984.

Columbia Area



Stretching from Boston Bar and Manning Park to the Alberta border, south to the American border and north as far as the Gang Ranch, the Columbia Area serves 221,000 customer lines in the Kootenays, the Okanagan and the central interior of the province.

The Company's reorganization has resulted in two former divisions of the Company — the Okanagan and Interior — being combined into the Columbia Area. The Columbia Area has applied the corporation's responsible approach to the relocation and the retraining of employees during this major restructuring and downsizing. Area headquarters have been established at Kelowna where a new Area office building is currently under construction.

The economy of the area served by Columbia is based largely on natural resource industries and tourism. Neither sector performed well in 1984 with the result that the solid growth which has been characteristic of the area for many years failed to reach its anticipated levels. However, the basis for future growth — the forests, the mineral wealth and the climatic and scenic attractions — remains.

The Company proceeded with a scaled-down version of its construction program resulting in seven conversions to GTD-5 switches, including the first Class 4/5 GTD-5 in B.C. Tel. These installations improved service generally and brought automatic number identification to areas previously without this service.

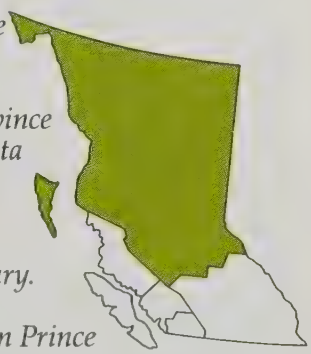
Toll repeaterman Ted Loudon is one of the many employees involved with the conversion to the GTD-5 digital switch — the new generation of computerized switches B.C. Tel is installing to meet growth and upgrading requirements throughout the province.

As part of its move to increased efficiency, a Customer Service Operations Plan was developed in 1984. This plan facilitates the consolidation of Customer Service activities into functionally related groups and a re-configuration of five districts from the former six. An organizational structure has resulted which is capable of a more dynamic response to the customers' needs and which yields greater team-size efficiencies.

Customer Action Teams comprised of representatives from Customer Service, Network, Engineering and Construction have actively diagnosed and rectified isolated service problems.

As in the other Areas, Columbia employees intensified their efforts to improve revenues through increased sales of network services and products. The multi-million-dollar railroad construction program — the driving of two mountain tunnels on the CPR mainline between Revelstoke and Golden — provided an opportunity to provide communication links along the twenty-mile project.

Mackenzie Area



The Mackenzie Area covers the northern half of the province from the Alberta border to the Pacific and north to the Alaska boundary. From its headquarters in Prince George, Mackenzie serves some 115,000 customer lines in its sparsely settled 164,000 square mile area.

The provision of telecommunications services in an area as large as Mackenzie with its rugged terrain and widely separated small communities and settlements has always been challenging and expensive. Nevertheless, B.C. Tel has persevered in its efforts to provide and improve service to its customers whether they are in large population centres such as Prince George or remote resource locations.

Improving service continued to receive a high priority in Mackenzie in 1984. Three GTD Class 4/5, two GTD-5 and one #2 EAX switches were placed in service and there were three conversions to Traffic Service Position System (TSPS) operations.

The effort to improve service was not confined to equipment conversions. Responsibility for improved performance rests with all levels of employees who have understood that high levels of service translate, ultimately, into increased revenues and a financially healthier Company.

The Customer Awareness Team concept which originated with an employee's suggestion continues to be successful and was extended from Prince George to the Williams Lake and Peace River districts in 1984. The teams, each composed of a cable-maintenance person, installer-repairman and a network repairman, concentrate on repeat troubles and have been successful in reducing the number of repeat-trouble reports in the Area.

Employee communications are very important in a sparsely populated area such as Mackenzie and the Area circulates a quarterly report with its own distinctive logo to employees. Among other subjects, the reports attempt to link the Area's financial and service objectives with the work performed and the service objectives of the

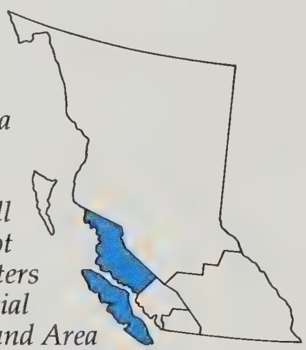
individual employee.

The North was particularly hard hit by the recession and still suffers an unemployment rate of 16% to 18%. There has been a net gain in customer lines in the Area but it failed to reach the original forecast.

In an effort to improve revenue generation, business accounts representatives in the Area have been combined with the network marketing organization to provide a broader-based aggressive sales approach. The new system is regarded as a promising move towards future revenue gains.

Mackenzie had the distinction of selling the first network multi-channel Spacetel system. It was placed at a resource location and should be the forerunner of many such sales since Spacetel's capabilities meet the requirements of the resource industries for good communications at remote locations.

Island Area



In addition to Vancouver Island, the Island Area includes the hundreds of large and small islands that dot the coastal waters off the provincial mainland. Island Area headquarters are in Victoria and the Area serves some 250,000 customer lines.

The Island Area serves a mixed economy and it is this mix which provided a measure of stability for the Area in 1984 and promises to do the same in 1985.

The mild climate and varied scenery continue to attract retirees while these same attractions plus the advantageous exchange rate drew a substantial number of American tourists to the Island Area. The presence of the provincial capital in Victoria and the increasing attention paid by the provincial government to the quality of its telecommunications facilities remain potential sources of business for the Area.

In fact, one of the major achievements of the Island Area in 1984 was winning the contract for providing the provincial government's communications system. The new network, with headquarters in Victoria, is one of the largest self-contained systems in Canada. Only the Government of Ontario commands a larger system. The integrated voice and data 'Provnet' gives the provincial government a private network system which ties together all their major administrative areas throughout the province.

Other major work in the Island Area included such service improvements as three large GTD-5 conversions and the upgrading of the long distance network to the Vancouver long distance switch. Marine traffic is a natural and important part of Island activities and 1984 saw a welcome growth in this area as well as the installation of four new marine radio terminals.

Although the forest industry, the largest economic force in the Area, failed to move any significant distance from the levels set in the recession, Island Area was able to achieve modest growth in other facets of its business.

For the future, the Island Area looks with confidence to a gradual improvement in the economy accompanied by further improvement in telephone growth. The endorsement by Vancouver Island mayors of the 'Islands '86' project clears the way for a series of events and programs that will involve substantial activity on the part of the Island Area in addition to the expected influx of Expo 86 visitors. The Island is also preparing for the large numbers of delegates expected to attend the World Conference of Islands and the Convention of First Peoples.

TELECOMMUNICATIONS AT EXPO 86

B.C. Tel, which is providing telephone and other telecommunications services to Expo 86, will be represented through the Telecom Canada Pavilion.

Expo 86, the world exposition on transportation and communication, will have more than 40 international pavilions on site, including those of the United States, the Soviet Union and China. It will be open from May to mid-October, 1986.

The Telecom Canada Pavilion, featuring 'Portraits of Canada' in a Walt Disney Productions' Circle-Vision 360 film which surrounds the audience in motion picture and sound, is expected to become one of the most popular attractions at the exposition.

The pavilion also will contain exhibits of Canada's achievements in telecommunications technology and will help broaden public understanding of Telecom Canada as the organization providing the country with a national telecommunications network second to none. B.C. Tel, eight other major telephone companies and Telesat Canada are members of Telecom Canada.

The Extended B.C. Tel Family

B.C. Tel's diversification program, which has been under way since 1979, has placed the Company in a position of strength from which it can address the many opportunities afforded by the Information Economy.

BUSINESS TELECOM EQUIPMENT (BTE)

Despite an almost flat economy, BTE was able to turn in an impressive record of performance in 1984 with sales up substantially over those of 1983. BTE was positioned and prepared to take advantage of regulatory changes which permitted customer-ownership of terminal

equipment and also permitted BTE to sell as well as lease such equipment.

Economic conditions have made business customers more conscious than ever of the need for efficiency in their telecommunications equipment and they see the new technologies as a source of improved productivity. This awareness plus the lower prices produced by the active marketing of BTE and its competitors have created a lively climate for sales — one in which BTE has been able to compete with considerable success.

After its formation in early 1983, BTE's success depended on how well and how quickly its people could adapt to the pressures of competition and how effectively they could organize themselves into an efficient, highly motivated unit. Their progress in 1984 demonstrates how effectively they met that challenge.

The market place is now fully competitive and the process of removing it from detailed price regulation continues. In 1985, the issue of whether the CRTC can require BTE to be structurally separated will be decided upon.

Portable Communications Division

A new division of BTE has been set up to deal with the new and growing market for portable communications equipment. The success of the Company's Autotel product and the appearance of cellular mobile radio (CMR) have sparked increased interest in this segment of the telecommunications market.

The Autotel system makes it possible for automobile radio telephones to be used like home telephones. Local and long distance calls can be dialed from the mobile equipment without recourse to an operator. Autotel services are now available in Vancouver, Victoria, the Okanagan, Prince George and Dawson Creek.

In 1985, the Company will be introducing cellular radio to certain markets in British Columbia. This advanced technology permits a CMR-equipped vehicle to send and receive a strong, uninterrupted signal even though it is moving across an entire city. Successive 'cells' pick up and pass on the signals throughout the vehicle's progress. When it appears, cellular radio should occupy an important place in BTE's impressive portfolio of advanced-technology products.

Such products and the competitive drive of approximately 900 BTE employees augur well for its continuing success.

CANADIAN TELEPHONES AND SUPPLIES (CT&S)

Canadian Telephones and Supplies continues to supply expertise for the installation of major items of equipment within the Company and for BTE on a contract basis. CT&S has moved beyond this traditional role with the formation of a specialized division — Telecommunication Services International (TSI).

International Markets

While Canada and British Columbia are experiencing a prolonged period of slack economic activity, other parts of the world offer growth opportunities. TSI was formed to explore foreign markets and expand the market area for B.C. Tel's products and services.

Its products are the skills of the people of B.C. Tel in technical services, consulting systems and software, and the ability to develop and deliver systems in all facets of telecommunications.

TSI is handling the offshore marketing, for example, of the Facilities Management System designed by B.C. Tel and of interest to a number of foreign telephone companies.

With the new emphasis on Canada's role as a trading nation of the Pacific Basin and the increasing number of foreign delegations seeking telecommunications expertise, TSI is positioned to represent the Company's interests and explore potential offshore opportunities.

MICROTEL LIMITED

Microtel is the largest secondary manufacturing company in British Columbia. It makes and markets a range of advanced telecommunications equipment.

In 1984 Microtel went through a period of redirection in its market coverage, portfolio management and operational environment. The process will continue until the portfolio renewal balances the product offering and 'current' products can support the market improvement and research and development required to keep

"At Microtel, people manage their own jobs. Success for the Company must be initiated by the people on the line who are turning out the products or the people in the field doing the selling."

left,
Robert F. Alexander
President and
Chief Executive Officer
Microtel Limited

right,
Bruce G. Hartwick
President
Microtel Pacific Research

the product line on a profitable track.

Sales in 1984 of $170.4 million were the result of pruning products whose market performance was unsatisfactory and were further affected by a poor Canadian economy which reduced normal sales expectations.

The Company's confidence in the future is reflected in its increased investment in production, engineering, and marketing and research development. The R&D expenditure alone for 1984 was $23.6 million, half of it for systems research and half for specific product development.

As Microtel has grown, it has had to develop ever broader market bases. From its Canadian customer base it is now moving strongly into the United States market where it expects to do half of its business by 1989. Microtel addresses many offshore business opportunities but its major sales thrust outside Canada and the U.S. is concentrated in those areas of the world where the probability of success is high.

As the Company exits unprofitable or obsolescent product lines, it must move quickly to bring its product portfolio to needed strength. Microtel's strategy of rapid portfolio rebuilding includes licensed manufacturing from other suppliers, joint ventures and the acquisition of technology from outside sources.

Microtel's present portfolio includes: cellular radio systems now undergoing field trials; System 51 — the network management system for surveillance, alarm and trouble-shooting for telephone and utility companies; Enterphone controls for secured entry to apartments and industries; simultaneous voice and data transmission DACCS bundled digital systems; the GTD-5 digital electronic switch for telephone switching offices; and the Omni PBX with separate buses to handle voice and data simultaneously.

Spacetel, which brings telecommunications services of an urban standard to remote communities and remote resource locations, continues to sell well. A new version is currently being introduced for international and U.S. application, thus doubling the potential market for the product.

A $15 million manufacturing agreement was reached in 1984 with Cem Corporation of Toronto. Under its terms, Microtel will triple its production of ICON educational computer systems. These have been standardized by the Ontario Ministry of Education in its drive to bring computers to the classroom.

There is a new and urgent demand for improved training and retraining facilities and resources throughout the telecommunications industry, nationally and internationally. Microtel Learning Services has been formed to address this potentially lucrative demand and is currently offering a variety of computer-assisted training programs and facilities.

Microtel Limited is in its transition phase from a manufacturing company to a market-driven company with manufacturing and R&D capabilities. Of necessity, there is a cost associated with this transition but the Company is confident that such costs will be more than justified when Microtel reaches its goal of an earnings performance which will contribute significantly to the overall financial picture of its parent company.

Bruce G. Hartwick was appointed President of Microtel Pacific Research in November, 1984. Prior to this appointment, he was Corporate Vice-President of NOVA, an Alberta Corporation and a member of the board of directors of Novatel. In addition to graduate studies in Business Administration and Operations Research at McMaster, Alberta and Stanford universities, his career includes extensive experience in computing and telecommunications with Imperial Oil, the University of Western Ontario and Petro-Canada.

The directors have noted with pride the many instances throughout the year in which Company employees have assisted, sometimes at considerable risk to themselves, members of the public who have been involved in accidents or other life-threatening situations.

These responses and the consistently high response of employees to the Telecommunications Employees Community Fund and other philanthropic or community causes are an indication of the calibre and character of B.C. Tel's employees. Well done!

W. Thomas Brown

W. Thomas Brown will retire as a director of B.C. Tel effective March 21, 1985. Mr. Brown has had a distinguished career as a notable member of Canada's financial community and his expertise in the area of finance has been of particular benefit to this Company.

Mr. Brown is Honorary Chairman of Odlum Brown Limited and on the boards of the Vancouver Foundation, the Chris Spencer Foundation and the Nature Trust of Canada. He recently retired from the boards of the Bank of British Columbia, Wardair International Ltd., Fidelity Life Insurance Company and Century Life Insurance Company of Canada.

Throughout his twelve-year tenure on B.C. Tel's board, Mr. Brown consistently sought and served the best interests of this Company with diligence and integrity and the board herewith records its appreciation of his most valuable contribution of effort and expertise.

The Future

The year ahead will continue to challenge the Company and its people. External forces will continue to shape the nature and amount of progress it will be able to achieve, at least in the area of its financial results.

The largest and most important area of uncertainty is the economy and the extent to which the recovery can be sustained. To a large degree, Canada's performance will remain tied to, but lag, that of the United States. While the strength

of the American recovery may be dissipating somewhat, enough vigour remains to afford a degree of optimism to this country.

In its own right, Canada would appear to be making a considerable shift in its economic direction and philosophy — one which could improve business confidence and provide sufficient incentive to reinvigorate this country's faltering recovery. The new federal budget will give a more definite indication of how this new direction can and will translate into an improved economy.

The provincial government is taking some initiatives to add strength to the very weak recovery the province has been able to make to date. Of particular interest to this Company are the programs which are related to improving trade with the countries of the Pacific Basin and those related to the encouragement of increased activity in the high-tech industries.

For its part, B.C. Tel will continue to maintain and improve the vital communications infrastructure it provides for the people, the institutions and the industries of this province. We will continue to seek means and methods of improving the results from our network and from the other members of B.C. Tel's extended family by improving our operating margins and the profitability of our products.

Our long-term program of conversion to electronic switching throughout the network will move ahead in 1985 with the installation of more GTD-5 electronic digital switches and related upgrading. There will be an increasing presence of fibre optics in the network and the new technology of cellular radio will be field-tested.

Approval of the Company's application for a general rate increase is of considerable importance to our financial returns for 1985 and for the Company's ability to continue to provide its services at affordable rates. The uncertainty as to the outcome of the rate case adds to the problems of planning this year's construction program on a realistic basis.

In common with the majority of British Columbia's citizens, we look to Expo 86 as a generator of increased economic activity, as well as a symbol of renewed confidence in the province and its potential. B.C. Tel will be an active participant in Expo 86 to demonstrate the Company's strengths and the range of its interests and activities.

The Company is looking beyond Expo 86 to the long-term opportunities provided by the countries of the Pacific Basin and is already directing important marketing initiatives to this area.

The directors share the optimism expressed in the Chairman's Letter and are confident that the Company's strategic direction and ongoing effectiveness of operation will be reflected, over time, in more favorable returns for shareholders, more efficient delivery of services for customers and more satisfaction in the workplace for employees.

On behalf of the Board of Directors,

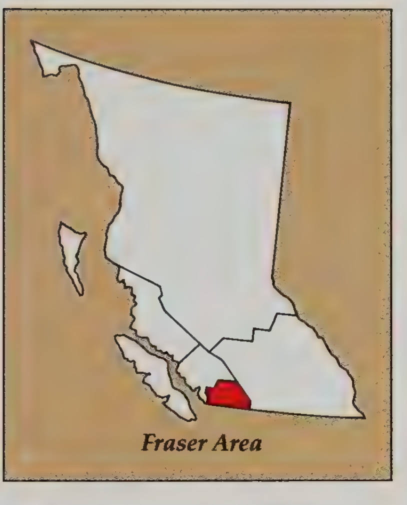
G.F. MacFarlane

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Burnaby, British Columbia
February 13, 1985

"The challenge for 1984 was to meet the unique, highly specialized needs of our large business customers in a competitive environment while maintaining or improving our general service commitments."
Brian Canfield
Burrard Area General Manager


B.C. Tel is a major supplier of telecommunications services for Expo 86.



"When a slow economy causes revenues to moderate, it's the responsibility of the Area to compensate by reducing expenses and finding ways to stimulate new revenue."

left,
George Holmes
Fraser Area General Manager

right,
Les Roberson
Network Planning Technician

Controlled Environmental Manholes (CEM) have become homes for some remote digital switches. Underground CEMs can go almost anywhere, are cost-effective and require little maintenance.

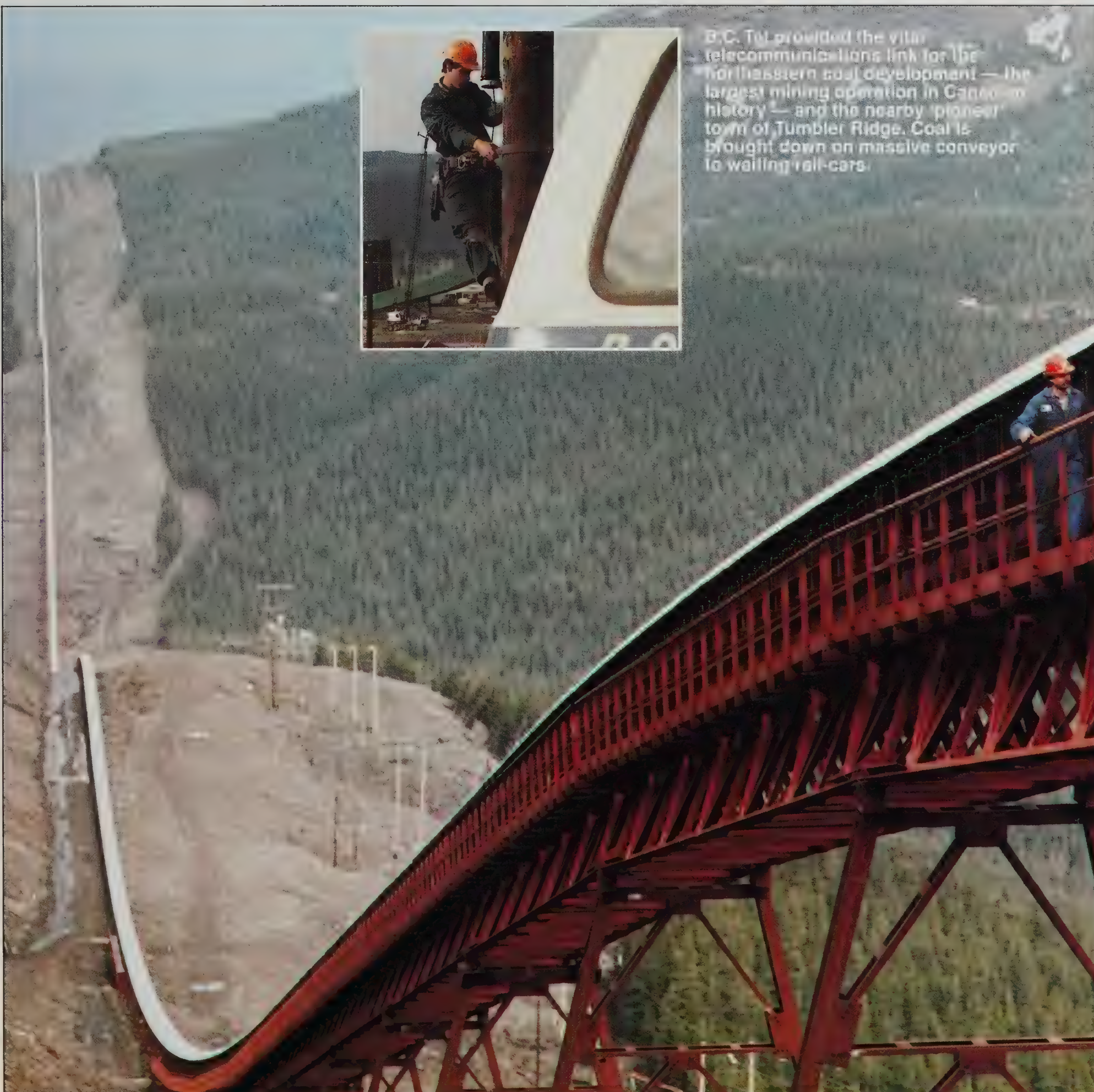
"In an area that is normally geared for growth, we had to scramble hard to overcome the problems that were created when that growth dropped off."

Carl Swabey
Columbia Area General Manager

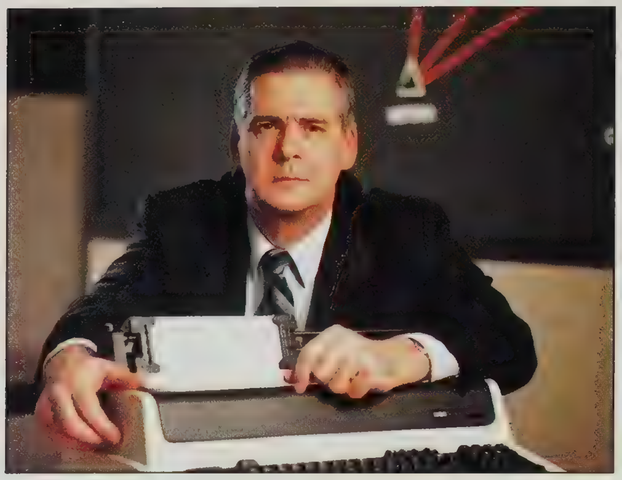
With CP Rail's massive Roger's Pass tunnel project serving as a backdrop, B.C. Tel crews lay cable that will meet the telecommunications needs of the railway.

"We are now feeling the real impact of the new technology. It is no longer some vague promise of the future. In Mackenzie in 1984, it was right on top of us – and we loved it."

Don Haahaim
Mackenzie Area General Manager



B.C. Tel provided the vital telecommunications link for the northeastern coal development — the largest mining operation in Canadian history — and the nearby 'pioneer' town of Tumbler Ridge. Coal is brought down on massive conveyor to waiting rail-cars.



"In 1984, the presence of the provincial government, the retirement industry and tourism provided the Island Area with a degree of stability in spite of difficult economic times."

Bob Johnston
Island Area General Manager

Trouble analyzer Dennis Gedney ensures everything is running smoothly at the new provincial government network control centre — the control point for Provnet, the telecommunications link for provincial government offices across the province.

Financial and Shareholder Information

Table of Contents

Financial Review

CONSOLIDATED EARNINGS

Consolidated earnings in 1984 totalled $82.1 million, or $2.07 per average share, compared to 1983 earnings of $86.2 million or $2.36 per average share.

The after-tax earnings contribution by operating segment was as follows:

	1984	1983
Telecommunications	**$2.16**	$2.19
Manufacturing	**(.09)**	.17
	$2.07	$2.36

While the consolidated results for 1984 were below earlier forecasts, they were nonetheless achieved in circumstances that were far from favourable to our Company:

(1) a faltering economic recovery and a high level of unemployment in the province. This environment affected primarily the telecommunications segment in terms of demand growth in customer lines and long distance calling volumes;

(2) higher interest rates throughout most of 1984; and

(3) continuation of rationalization programs within the manufacturing segment, involving the elimination of unprofitable product lines, a consolidation of plant facilities, establishment of a sales function in the United States and the introduction of new products.

The timing of major issues of additional ordinary shares midway through 1983 and in the latter months of 1984 added to the downward pressure on per-share earnings in 1984.

TELECOMMUNICATIONS OPERATIONS

Operating Revenues

Operating revenues increased 5.2% in 1984 to $1,147.8 million, from $1,091.3 in 1983 when the annual increase had amounted to 8.1%.

The downward trend in revenue growth this past year was most evident in the category of local service, where the increase amounted to $6.5 million or 1.5%, despite a 2.3% increase in customer lines during 1984 and the 4% interim rate increase that was implemented at mid-year. A reduction in the number of telephone extensions in service was a limiting factor affecting revenue growth.

Revenues from long distance services increased by $40.7 million or 6.7% in 1984, totalling $644.7 million for the year compared with $604.0 million in 1983. A 3.8% growth in the annual message volumes together with the mid-year 4% rate increase on calls within the province were factors in the revenue increase. A minor increase in the average revenue per message also contributed somewhat; however, long distance revenue settlements with other carriers were less than in 1983 and were a further factor preventing the Company from sustaining the higher levels of long distance revenue growth of prior years.

Operating Expenses

Operating Expenses for the year totalled $851.3 million compared to $806.4 million for 1983, an increase of $44.9 million or 5.6%. The increase is well below the 8.8% increase recorded in 1983. This improvement reflects the effectiveness of the spending restraint program in response to lowered revenue growth in 1984, together with a reduction in employee numbers and improvements in productivity.

Controllable expenses were up 5.8% due to the 7% wage increase as of March 1984 and increased computer systems and engineering costs.

Depreciation expense was 5.1% higher in 1984 with the adoption of rate changes to bring about an accelerated capital recovery in certain asset categories, pursuant to a decision by our regulatory commission.

Operating taxes were also higher by 5.0% in 1984 because of increases in property and payroll taxes, but were held in check by the general programs of restraint by governments in British Columbia.

MANUFACTURING OPERATIONS

Sales

Microtel's 1984 annual sales of $170.4 million were 17.5% lower than the 1983 sales total of $206.5 million. The reduction is principally due to the discontinuance of several unprofitable product lines, including single-line telephone sets, and the 1984 transition to new product introduction and market

segments offering the greatest potential for future profit and growth.

Export sales amounted to $27.6 million in 1984 compared to $25.1 million in 1983.

Costs and Expenses

Overall costs and expenses were reduced by 10.2% in 1984, to $174.6 million from $194.4 million in 1983.

A 17.6% reduction in cost of sales was in line with the reduced 1984 sales volume. In addition, some progress was made in reducing period and other costs, although these include substantial non-recurring expenses related to business rationalization and product discontinuance, as well as stepped-up expenditures on research and development and new market development.

DEBT SERVICE COSTS

Consolidated debt service costs increased by 11.9%, from $96.0 million in 1983 to $107.4 million in 1984.

Higher short-term interest rates in 1984 added to borrowing costs for the year as did the maturity of $35 million of low interest bonds in late 1983 and 1984 and replacement by debt at current, much higher, rates.

Debt service costs were otherwise contained in 1984 by successful equity financings and a reduced capital spending program.

INCOME TAXES

Income tax expense decreased in 1984 to $82.4 million from $93.9 million in 1983. Reduced 1984 telecommunications earnings and tax recoverable in the future, related to Microtel's operating loss, were principally responsible for the decrease. A reduction in the combined federal and provincial statutory tax rate, from 52.9% to 52%, also contributed to lower income tax expense for the year.

NET EARNINGS AND DIVIDENDS

Consolidated net earnings of $102.5 million in 1984 were down from $107.1 million in 1983.

After provision for preferred share dividends of $20.4 million, 1984 net earnings for ordinary shares amounted to $82.1 million compared to $86.2 million in 1983.

Ordinary share dividends, reflecting both the increase in the average number of shares outstanding in 1984 and the increase in the dividend rate in the third quarter, increased to $66.1 million in 1984 from $58.0 million in 1983.

The balance of retained earnings, after deducting expenses of $1.1 million incurred to issue additional shares ($1.0 million in 1983), amounted to $14.9 million compared to $27.2 million in 1983.

RATES OF RETURN

The rate of return on average invested capital in 1984 declined to 10.68% from 11.18% in 1983. Similarly, the rate of return on average ordinary equity was reduced to 11.52%, from the corresponding 1983 return of 13.77%.

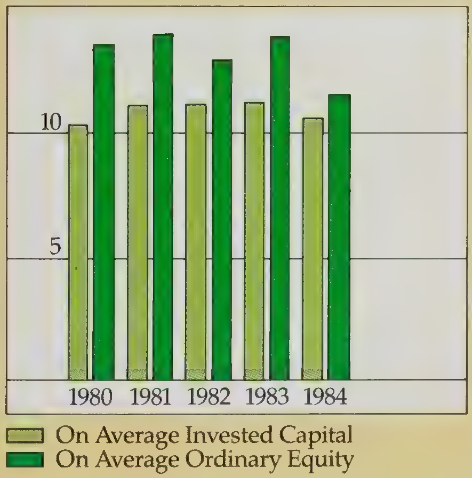
CHANGES IN FINANCIAL POSITION

The internal generation of funds required to finance the annual construction programs increased from 66% in 1983 to 68% in 1984. This improvement resulted from both the reduced construction program and increased depreciation as a source of funds from operations.

The balance of funds required were secured through external financings, comprising $70 million from the sale of Series AK Bonds and additional issues of ordinary shares which provided $109.6 million. Offsetting amounts required upon the maturity or redemption of bonds and preferred shares during 1984 totalled $26.5 million.

By year-end 1984, the consolidated debt ratio was reduced to 52% from the 1983 year-end ratio of 54%.

Rates of Return *(Percentage)*



British Columbia Telephone Company

Management Report

To Our Shareholders:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The Company's independent auditors, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these financial statements present fairly the Company's financial position and operating results in accordance with generally accepted accounting principles consistently applied. Their report is included below.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

D. B. McNeil
Vice-President – Corporate Finance and Treasurer

Auditors' Report

To the Shareholders of British Columbia Telephone Company

We have examined the consolidated balance sheet of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and subsidiaries as of December 31, 1984 and 1983, and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements appearing on pages 25 to 38, inclusive, present fairly the financial position of the Company and subsidiaries as of December 31, 1984 and 1983, and the results of their operations and the changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Vancouver, Canada
January 25, 1985

ARTHUR ANDERSEN & CO.,
CHARTERED ACCOUNTANTS

British Columbia Telephone Company

Consolidated Statement of Earnings

For the years ended December 31

		1984	1983
		($ Millions)	
Telecommunications Operations			
	Operating revenues (Note 2)	**$1,147.8**	$1,091.3
	Operating expenses (Note 3)	**851.3**	806.4
	Telecommunications operating earnings	**296.5**	284.9
Manufacturing Operations			
	Sales	**170.4**	206.5
	Costs and expenses		
	Cost of sales	**143.7**	170.7
	Selling and administrative expenses	**30.9**	23.7
		174.6	194.4
	Manufacturing operating earnings (loss)	**(4.2)**	12.1
Combined Operating Earnings		**292.3**	297.0
	Debt service costs — net (Note 4)	**107.4**	96.0
	Earnings before income taxes	**184.9**	201.0
	Income taxes (Note 5)	**82.4**	93.9
	Net earnings	**102.5**	107.1
	Less — Preference and preferred share dividends	**20.4**	20.9
Ordinary Share Earnings		**$ 82.1**	$ 86.2
Earnings per Ordinary Share			
	Basic	**$ 2.07**	$ 2.36
	Fully diluted	**$ 2.06**	$ 2.35
Average Ordinary Shares Outstanding		**39,728,000**	36,561,000

Consolidated Statement of Retained Earnings

For the years ended December 31

	1984	1983
	($ Millions)	
Balance at beginning of year as previously reported	**$ 221.1**	$ 193.9
Less — Prior period adjustment (Note 16)	**1.3**	1.3
As restated	**219.8**	192.6
Ordinary share earnings	**82.1**	86.2
	301.9	278.8
Less — Ordinary share dividends	**66.1**	58.0
— Share issue expense	**1.1**	1.0
Balance at end of year	**$ 234.7**	$ 219.8

British Columbia Telephone Company

Consolidated Balance Sheet

As of December 31

ASSETS		1984	1983
		($ Millions)	
Telecommunications Property, *at cost*	Buildings, plant and equipment *(Note 8b)*	**$3,348.7**	$3,139.2
	Less — Accumulated depreciation	**1,096.9**	1,009.1
		2,251.8	2,130.1
	Land	**26.9**	24.0
	Property under construction	**233.5**	270.7
	Material and supplies	**28.7**	26.0
		2,540.9	2,450.8
Manufacturing Property, *at cost*	Plant and equipment	**78.8**	69.1
	Less — Accumulated depreciation	**34.5**	32.1
		44.3	37.0
		2,585.2	2,487.8
Investments and Other Assets, *at cost*	Telesat Canada	**3.3**	3.3
	Instalment contracts and other	**21.2**	7.8
		24.5	11.1
Current Assets			
	Accounts receivable	**205.6**	191.6
	Due from affiliated companies	—	5.8
	Inventories *(Note 6)*	**60.5**	45.7
	Prepaid expenses	**25.5**	12.0
		291.6	255.1
Deferred Charges			
	Unrealized and deferred losses on foreign exchange, less amortization	**11.2**	9.4
	Unamortized cost of issuing debt securities	**10.4**	10.0
		21.6	19.4
		$2,922.9	$2,773.4

Approved by the Directors,

Director

Director

CAPITALIZATION AND LIABILITIES

		1984	1983
		($ Millions)	
Capitalization			
	Equity *(Note 7)*		
	Ordinary shares	**$ 805.1**	$ 678.9
	Preference and preferred shares	**262.9**	272.7
	Total equity	**1,068.0**	951.6
	Long-term debt *(Note 8)*	**1,096.5**	1,060.5
		2,164.5	2,012.1
Current Liabilities			
	Cheques issued in excess of bank balances	**30.4**	23.8
	Short-term obligations *(Note 9)*	**49.2**	47.1
	Accounts payable and accrued liabilities	**183.3**	168.1
	Due to affiliated companies	**.8**	3.1
	Income taxes payable	**1.2**	40.3
	Dividends payable	**21.5**	18.1
	Unearned revenues	**46.8**	44.8
		333.2	345.3
Income Taxes Deferred		**425.2**	416.0
		$2,922.9	$2,773.4

British Columbia Telephone Company

Consolidated Statement of Changes in Financial Position

For the years ended December 31

		1984	1983
		($ Millions)	
Sources of Cash			
	Internally generated		
	Ordinary share earnings	**$ 82.1**	$ 86.2
	Add (deduct) items not requiring cash		
	Depreciation	**243.0**	231.6
	Income taxes deferred	**9.2**	9.7
	Allowance for funds used during construction	**(19.6)**	(16.9)
	Other, net	**(9.4)**	(3.8)
		305.3	306.8
	Less — Ordinary share dividends	**66.1**	58.0
		239.2	248.8
	Decrease (increase) in working capital *(Note 11)*	**(50.7)**	28.2
	Financing proceeds, net of related costs and expenses		
	Ordinary shares issued	**109.6**	73.8
	Increase (decrease) in short-term obligations before current maturities and reclassification	**(24.2)**	(4.0)
	Long-term debt	**78.3**	39.4
		163.7	109.2
	Less — Redemptions, conversions or current maturities of long-term debt and preferred shares	**29.3**	30.2
		134.4	79.0
	Total sources of cash	**$ 322.9**	$ 356.0
Application of Cash			
	Capital expenditures		
	Gross capital expenditures	**$ 352.4**	$ 379.8
	Increase (decrease) in material and supplies	**2.7**	(3.2)
		355.1	376.6
	Less — Salvage value of plant retired, net	**12.6**	3.7
	— Allowance for funds used during construction	**19.6**	16.9
	Total application of cash	**$ 322.9**	$ 356.0
Working Capital Deficiency			
	Working capital deficiency, beginning of year	**$ 90.2**	$ 185.3
	Decrease (increase) in working capital *(Note 11)*	**(50.7)**	28.2
	Increase (decrease) in short-term obligations	**2.1**	(123.3)
	Working capital deficiency, end of year	**$ 41.6**	$ 90.2

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

British Columbia Telephone Company is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain of the Company's goods and services and periodically issues directives which affect the accounting treatment of specific items in the Company's accounts.

(a) **Earnings Per Ordinary Share**

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the period. Fully diluted earnings per ordinary share reflect the potential full conversion of the $2.32 convertible subordinate preferred shares.

(b) **Consolidation**

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Microtel Limited (together with its wholly-owned subsidiaries, Viscount Industries Limited, and Microtel Pacific Research Limited), North-west Telephone Company, and Canadian Telephones and Supplies Ltd. (together with its wholly-owned subsidiary Cantel Leasing Ltd.). The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is included in telecommunications property and is being amortized over periods not exceeding thirty years. Such amortization amounted to $700,000 in 1984 ($700,000 — 1983).

All significant intercompany transactions have been eliminated except for purchases of telecommunications equipment and supplies by British Columbia Telephone Company from Microtel Limited (Microtel) which are reflected in the consolidated balance sheet at cost to the parent, and are included in manufacturing sales in the consolidated statement of earnings *(Note 14)*. To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated earnings and retained earnings.

(c) **Telecommunications Property**

Telecommunications property is recorded at historical cost and includes certain payroll costs and general overheads applicable to the construction activity. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction (AFC) is included in income by way of an offset against debt service costs. The capitalization rate (defined by the CRTC as the rate of return on average invested capital earned by the utility during the preceding fiscal year) was 11.18% in 1984 (11.13% — 1983). Such income is not realized in cash currently but will be realized over the service life of the property.

No gain or loss is recognized in the statement of earnings when depreciable telecommunications property is retired. The original cost of the property is either charged to accumulated depreciation or, when the property is reusable, to material and supplies.

1. Summary of Significant Accounting Policies *(continued)*

(d) **Depreciation**

Depreciation rates for telecommunications property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 7.33% for 1984 (7.44% — 1983).

Depreciation on manufacturing property is provided over the estimated useful lives of the assets using a straight-line basis. The composite depreciation rate was 6.54% for 1984 (7.48% — 1983).

(e) **Investment in Telesat Canada**

The investment in 330,000 common shares of Telesat Canada, representing 5.5% of the total outstanding shares, is recorded at original cost. There is no quoted market value for this investment, however, its estimated book value was $7,700,000 as at December 31, 1984 ($6,900,000 — 1983).

(f) **Income Taxes**

The Company and its subsidiaries use the deferral method of income tax allocation by providing for deferred income taxes on all timing differences between accounting income and taxable income except for AFC where no deferred tax is provided as allowed by the CRTC. *(Note 5)*

(g) **Translation of Foreign Currencies**

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at the balance sheet date.

Currency gains and losses are included in net earnings for the year except for gains and losses on long-term debt which are amortized over the remaining lives of the related issues. *(Note 4)*

The Company's total foreign currency indebtedness as at December 31, 1984 was $79,100,000 (U.S.) ($82,500,000 U.S. — 1983).

(h) **Research and Development**

Product and service development expenditures which in management's opinion result in identifiable telecommunications operations assets have been deferred. Such deferred expenditures amounted to $2,200,000 at December 31, 1984 ($2,500,000 — 1983) and will be amortized over the expected life of the related products and services.

All other research expenditures for development and improvement of new and existing products and services are expensed as incurred. The amount expensed in 1984 was $20,800,000 ($16,400,000 — 1983).

(i) **Leases**

Leases are classified as capital or operating leases depending upon the terms of the contract.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the life of the lease. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. Where the Company is lessor, it acts as a financing intermediary. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Income is recognized over the term of the lease, generally five or ten years. The equipment is depreciated in accordance with existing depreciation policy.

Assets, liabilities and amortization related to these leases are not material in amount.

2. Operating Revenues – Telecommunications Operations

	1984	1983
	($ Millions)	
Local service	**$ 445.8**	$ 439.3
Long distance service	**644.7**	604.0
Other, net of uncollectibles	**57.3**	48.0
	$1,147.8	$1,091.3

3. Operating Expenses – Telecommunications Operations

	1984	1983
	($ Millions)	
Operations	$ 559.0	$ 528.3
Depreciation	232.5	221.1
Provincial, municipal and other taxes	59.8	57.0
	$ 851.3	$ 806.4

4. Debt Service Costs

	1984	1983
	($ Millions)	
Interest on long-term debt	$ 118.2	$ 106.7
Other interest	7.5	7.7
Amortization of unrealized and deferred losses on foreign exchange	4.3	1.5
Amortization of issue costs	1.3	1.1
	131.3	117.0
Less — Allowance for funds used during construction	19.6	16.9
— Service charges on overdue accounts	4.3	4.1
	$ 107.4	$ 96.0

5. Income Taxes

	1984	1983
	($ Millions)	
Currently payable — Federal	$ 51.9	$ 57.9
— Provincial	23.2	25.6
Deferred	7.3	10.4
	$ 82.4	$ 93.9

A reconciliation of the Canadian statutory income tax rate to the effective income tax rate is as follows:

	1984	1983
Combined basic federal and provincial income tax rate	52.0%	52.9%
Allowance for funds used during construction	(5.5)	(4.4)
Tax incentives for scientific research	(1.6)	(1.2)
Other	(.3)	(.6)
Effective income tax rate per Consolidated Statement of Earnings	44.6%	46.7%

6. Inventories – Manufacturing Operations

Inventories are valued at the lower of cost and net realizable value:

	1984	1983
	($ Millions)	
Finished goods	$ 3.6	$ 4.8
Uncompleted contracts and work in process	47.0	31.6
Raw materials	9.9	9.3
	$ 60.5	$ 45.7

7. Equity

(a) Details of Shareholders' Equity

	Redemption Premium (Note 7e)	1984	1983
		($ Millions)	
Ordinary			
Ordinary Shares without par value: 43,688,620 shares outstanding (38,175,411 — 1983)		**$ 566.7**	$ 456.0
Retained earnings		**234.7**	219.8
Contributed surplus *(Note 7c)*		**3.7**	3.1
		805.1	678.9
Preference and Preferred			
$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares Par Value of $25 Each	3.2%	**.7**	1.0
Cumulative Preference and Preferred Shares			
Par Value of $100 Each			
6% Preference	5.0%	**1.0**	1.0
4⅜% Preferred	4.0%	**6.0**	6.0
4½% Preferred	4.0%	**5.0**	5.0
4¾% Preferred	5.0%	**7.5**	7.5
4¾% Preferred (Series 1956)	4.0%	**7.5**	7.5
5.15% Preferred	5.0%	**12.0**	12.0
5¾% Preferred	4.0%	**10.0**	10.0
6% Preferred	5.0%	**4.5**	4.5
Par Value of $25 Each			
4.84% Preferred	4.0%	**20.0**	20.0
6.80% Preferred	6.0%	**10.0**	10.0
7% Preferred	—	**22.5**	25.0
7.04% Preferred	7.0%	**20.0**	20.0
7.40% Preferred	5.0%	**41.7**	44.0
7.65% Preferred	4.0%	**28.0**	29.5
8¾% Preferred	—	**—**	1.7
10.16% Preferred	1.0%	**16.5**	18.0
11.24% Preferred (Not redeemable before June 15, 1990)	5.0%	**50.0**	50.0
		262.9	272.7
Total Equity		**$1,068.0**	$ 951.6

(b) Authorized Capital

The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of $1,250,000,000. As at December 31, 1984 the total approved share capital of the Company was $1,000,000,000 ($1,000,000,000 — 1983).

(c) Changes During 1984

Ordinary shares

- 4,834,752 shares were issued in September 1984 for $98,508,000 (3,589,743 shares for $70,000,000 — 1983).
- 29,166 shares were issued during 1984 on conversion of 14,583 – $2.32 convertible subordinate preferred shares (10,394 on conversion of 5,197 shares — 1983).
- 649,291 shares (253,252 — 1983) were issued during 1984 for $11,882,000 ($4,611,000 — 1983) through the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

Preferred shares

- Mandatory redemptions of preferred shares in the amount of $5,700,000 were made in 1984 and 1983 as described in Note 7e.
- the Company redeemed 40,200 — 7.65% preferred shares in 1984 (40,200 — 1983) in the amount of $1,000,000 ($1,000,000 — 1983) and 60,000 — 7.40%

preferred shares (60,000 — 1983) in the amount of $1,500,000 ($1,500,000 — 1983). In addition to the mandatory redemptions, 30,000 — 7.40% preferred shares were redeemed for $750,000 and 20,100 — 7.65% preferred shares were redeemed for $500,000. These amounts will be used to reduce the Company's 1985 purchase obligation requirements. These redemptions resulted in $615,000 of contributed surplus ($661,000 — 1983).

(d) **Ordinary Shares Reserved**

At December 31, 1984 the following shares remained reserved:

— 1,644,532 shares under the Company's Employee Share Purchase Plan as approved by the CRTC on June 30, 1983. Subscriptions were received for a maximum of 780,532 shares to be issued over a two-year period. Subscriptions totalling 94,747 shares have subsequently been cancelled. The purchase price per share will be 85% of the average market price on the first day or last day of each purchase period, whichever is the lesser, but not less than fully diluted book value at the commencement of each purchase period. During the year, the Company issued 354,868 shares under this plan, (194 shares — 1983) at a price of $17.25 per share and 406 shares at a price of $17.79 per share.

— 196,318 shares under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on October 28, 1982. The purchase price for the plan is based on the average market price for the five days preceding the investment date.

— 53,796 ordinary shares for the conversion of the $2.32 convertible subordinate preferred shares. The $2.32 convertible preferred shares are convertible on the basis of two ordinary for each preferred share at any time prior to July 1, 1986.

(e) **Preferred Share Redemption Requirements and Purchase Obligations**

Redemption requirements or purchase obligations apply to six issues:

— $2.32 convertible subordinate preferred shares are subject to (a) a purchase obligation requiring the Company to purchase specified quantities of such shares in the open market at a price not exceeding $25 per share, to the extent that they are available in each 12-month period, and (b) redemption at the option of the Company at any time at a premium of 8% to June 30, 1982, declining annually thereafter to par value after June 30, 1986.

— 7% preferred shares are subject to mandatory redemption of 100,000 shares, at $25 per share, each year until 1985, with the balance of 800,000 shares due in 1986.

— 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12-month period 60,000 shares at a price not exceeding $25 per share excluding costs of purchase.

— 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12-month period 40,200 shares at a price not exceeding $25 per share excluding costs of purchase.

— 10.16% preferred shares are subject to mandatory redemption of 60,000 shares at $25 per share each year on September 1 until 1995. Shares redeemed or acquired by the Company during each 12-month period may be applied, at the Company's option, to reduce the number of shares required for mandatory redemption. Redemption at the option of the Company in any amount on and after September 1, 1980 requires a premium of 5% declining annually thereafter to par after September 1, 1985. Shares may be acquired by the Company at a price not to exceed the redemption price including premium, if any, for the year.

— 11.24% preferred shares are subject to (a) a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 3-month period 15,000 shares at a price not exceeding $25 per share excluding costs of purchase and (b) a mandatory redemption on June 15, 1990 of any shares tendered on or before May 15, 1990 at a price of $25 per share. Commencing July 1, 1990 and thereafter, the Company shall make all reasonable efforts to purchase 4% per annum of the shares outstanding immediately after the June 15, 1990 redemption at a price not exceeding $25 per share excluding costs of purchase.

Other issues are redeemable at the stated redemption price plus premium, if any, only at the Company's option.

8. Long-Term Debt

(a) Details of Long-Term Debt

	1984	1983
	($ Millions)	
British Columbia Telephone Company		
First Mortgage Bonds		
Series H 6% due September 15, 1984	$ —	$ 15.0
Series I 5¾% due August 1, 1985	15.0	15.0
Series J 5¾% due July 15, 1986	20.0	20.0
Series K 5⅝% due April 15, 1988	20.0	20.0
Series L 6¾% due October 15, 1989	30.0	30.0
Series M 6⅜% due March 15, 1991	30.0	30.0
Series N 9⅛% due April 1, 1990	3.3	3.3
Series O 9⅝% due November 15, 1992	18.0	18.0
Series P 9⅛% due November 15, 1992	.5	.5
Series Q 8¼% due March 1, 1994	35.0	35.0
Series S 7⅞% due November 15, 1995	25.0	25.0
Series T 8⅝% due October 15, 1993	40.0	40.0
Series U 8⅛% due November 1, 1996 ($20 million U.S. funds)	26.4	24.9
Series V 9% due October 1, 1997	40.0	40.0
Series X 9¼% due April 15, 1998	35.0	35.0
Series Y 11% due January 15, 1996	45.0	45.0
Series AA 10¼% due April 1, 1995	30.0	30.0
Series AC 10½% due February 1, 1982-96 ($24.9 million U.S. funds)	32.9	33.1
Series AD 10¼% due October 15, 2001	60.0	60.0
Series AE 9.70% due June 15, 1999	50.0	50.0
Series AF 9⅞% due November 1, 2003	75.0	75.0
Series AG 14¼% due April 1, 1986	75.0	75.0
Series AH 16⅜% due April 1, 1987	100.0	100.0
Series AI 17¼% due September 1, 1988	50.0	50.0
Series AK 12¼% due February 15, 1999	70.0	—
	926.1	869.8
Promissory Notes and Bank Loans		
Amount reclassified *(Note 9)*	140.0	165.0
Issued at varying rates of interest from 12.25% to 15.40% and maturing on varying dates from 1986 to 1991	9.8	4.0
	149.8	169.0
Microtel Limited		
Interest-rate conversion and credit agreements due 1990 with an effective fixed rate of interest of approximately 12.1%	20.0	20.0
Other at varying rates of interest from 6.00% to 8.25%	.4	.8
	20.4	20.8
Amounts due under capitalized leases	20.1	19.5
Total Long-Term Debt	1,116.4	1,079.1
Less – Current maturities *(Note 9)*	19.9	18.6
Long-Term Debt	$1,096.5	$1,060.5

8. Long-Term Debt *(continued)*

(b) **First Mortgage Bond Issue Requirements**
The Company's telecommunications property is subject to liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1½% of the principal. Company practice has been to pledge additional unmortgaged property. Additional First Mortgage Bond issues also must meet the interest coverage ratio standards specified under the Deed of Trust and Mortgage.

(c) **Redemption/Retraction Provisions**
The First Mortgage Bonds, except for Series AG and AH, may be redeemed at the option of the Company prior to maturity at various premiums to a maximum of 7.65%. Such redemptions cannot be made if the funds borrowed for refunding purposes have an interest cost that is less than the interest cost of the bonds redeemed.

The Series AI Bonds are redeemable at the option of the Company on and after September 1, 1987 at a premium of ½%.

The Series AK Bonds are retractable at the option of the holder and redeemable at the option of the Company on February 15, 1989 and 1994, at which dates the Company has the option to set a new rate of interest.

(d) **Long-Term Debt Maturities**
The Series AC Bonds mature serially in the amount of $1,710,000 (U.S.) on February 1, in each of the years 1982 to 1995 and the remaining $6,060,000 (U.S.) matures on February 1, 1996.

Series AG and Series AH are extendable at the holder's option for a further five year term.

The total long-term debt maturities during each of the next five years are:

	($ Millions)
1985	$17.3
1986 *(Excluding Series AG)*	$24.5
1987 *(Excluding Series AH)*	$ 3.7
1988	$73.5
1989 *(Excluding Series AK)*	$33.4

(e) **Promissory Notes**
The promissory notes are issued to obtain funds for general corporate purposes including the cost of extension and improvements to the plant and properties of the Company.

These borrowings will be repaid from the proceeds of long-term financings.

The Company has long term agreements for revolving loan facilities and at December 31, 1984, the agreements totalled $140,000,000 ($165,000,000 – 1983). Drawdowns under the agreements are by way of promissory notes issued at either fixed or floating interest rates for periods of up to five years. Short-term obligations *(Note 9)* have been reduced by $140,000,000 ($165,000,000 – 1983) to reflect these arrangements.

9. Short-Term Obligations

Amounts falling due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

	1984	1983
	($ Millions)	
First Mortgage Bonds, current maturities *(Note 8)*		
Series H 6% due September 15, 1984	**$ —**	$ 15.0
Series I 5¾% due August 1, 1985	**15.0**	—
Series AC 10½% due February 1, 1985 ($1,710,000 U.S.)	**2.2**	2.1
Current maturities of long-term debt of subsidiaries	**.1**	.1
Amounts due under capitalized equipment leases	**2.6**	1.4
	19.9	18.6
Bank loans, 10.29% to 11.65% interest	**46.9**	25.0
Bank loans ($7,449,000 U.S.), 8.13% to 11.25% interest	**10.2**	23.0
Promissory Notes, current maturities, 8.00% to 12.75% interest	**109.6**	143.0
Amounts held under Employee Share Purchase Plan	**2.6**	2.5
	189.2	212.1
Less: Amount reclassified as long-term debt *(Note 8)*	**140.0**	165.0
	$ 49.2	$ 47.1

Short-term obligations are included in total capitalization for regulatory purposes in computing capitalization ratios and rates of return on capital.

10. Lines of Credit

At December 31, 1984, the Company had in place aggregate lines of credit totalling $492,000,000 ($461,500,000 — 1983). The Company maintains unused lines of credit with chartered banks at least equivalent to the aggregate of promissory notes outstanding.

11. Working Capital

Cash provided (applied) by changes in working capital components other than Short-term obligations:

	1984	1983
	($ Millions)	
(Increase) decrease in current assets:		
Accounts receivable	**$ (14.0)**	$ (35.3)
Inventories	**(14.8)**	10.4
Prepaid expenses	**(13.5)**	(1.0)
Other current assets	**5.8**	(.8)
Increase (decrease) in current liabilities:		
Cheques issued in excess of bank balances	**6.6**	10.8
Accounts payable and accrued liabilities	**15.2**	23.1
Income taxes payable	**(39.1)**	17.9
Other current liabilities	**3.1**	3.1
	$ (50.7)	$ 28.2

12. Commitments and Contingent Liabilities

(a) The Company estimates the construction programs for additional plant and facilities to cost $364,500,000 in 1985. Substantial purchase commitments have been made in connection with these programs.

(b) In 1984 Microtel contracted to sell $15,000,000 of its anticipated 1985 Research and Development expenditure, under the Scientific Research Tax Credit program. In this regard, Microtel is obligated to perform a minimum of $15,000,000 of non-funded qualified Research and Development in 1985, or be subject to a 50% tax on any shortfall under the Federal Income Tax Act.

(c) The Company has recently been reassessed by Revenue Canada for the years 1979 and 1980. The notices of reassessment deny certain Scientific Research claims by the Company and require payment of additional income taxes and interest thereon of $1,500,000 for those years. If the years subsequent to 1980 had been included in the reassessment, the additional tax and interest would cause retained earnings to be reduced by a further $7,500,000.

In the opinion of tax counsel, the Company has a strong basis to reverse the 1979 and 1980 reassessments and it is therefore treating the $1,500,000 as recoverable in the Balance Sheet at December 31, 1984. Consequently, no provision has been made in the Company's accounts at December 31, 1984 for any additional taxes relative to Scientific Research subsequent to 1980.

(d) The Company has offered an "Early Retirement Incentive Plan" for eligible bargaining unit employees in Telecommunications Operations to retire on January 1, 1985. As incentive, the program provides a lump sum retiring allowance which varies according to the age of the retiree. The offer has been accepted by 177 employees at a cost to the Company of $5,040,000. This amount, a commitment at December 31, 1984 will be charged to operations in 1985.

(e) See also *Note 8* and *Note 13*

13. Pension Plans

The Company and the Union maintain a number of pension plans covering substantially all employees in both Telecommunications and Manufacturing operations, subject to conditions related to age and period of service.

(a) **Costs:**

The annual accrued pension costs for the Company sponsored plans are paid into trustee funds. The Union sponsored pension plans for bargaining unit employees in Telecommunications Operations require that the Company contribute a fixed percentage of gross employee earnings to trustee funds.

Actuarial studies are prepared for Company sponsored plans at least every three years and experience deficiences, if any, in the plans are funded and amortized over the succeeding five-year period.

Benefit improvements for Company sponsored plans are funded and amortized over matching periods not exceeding a 15 year maximum funding period.

The total of pension costs in 1984 was $31,900,000 ($29,300,000 — 1983) including $1,700,000 ($800,000 — 1983) for amortization of past service and experience deficiencies.

(b) **Liabilities:**

Based on the last actuarial studies for which results are available, and taking into account benefit improvement changes since, the Company sponsored pension plans have an estimated unfunded liability for past service pension costs at December 31, 1984 of $51,900,000 ($23,600,000 — 1983). Changes in market value of Fund assets since the last actuarial valuation have not been taken into account.

The Company has no liability for the benefits payable under the Union sponsored pension plans for bargaining unit employees in Telecommunications Operations.

14. Related Party Transactions

Transactions with related parties (all affiliates of GTE Corporation) for the year ended December 31, 1984 were purchases and sales of telecommunications equipment and supplies *(Note 1)*, directory advertising commissions, royalties on equipment manufactured under licence and payments for services rendered under cost-sharing agreements. Approximately 65% (62% — 1983) of the sales and 14% (14% — 1983) of the purchases of Microtel were to and from related parties. Such sales include $85,500,000 to the Company for 1984 ($108,200,000 — 1983). Microtel sales of telecommunications equipment to the Company are at prices and terms as low as those offered to Microtel's most favoured customers for like materials and services under comparable conditions.

15. Industry Segments Information

British Columbia Telephone Company and its subsidiary companies operate principally in two business segments:

1. Telecommunications operations, which include local exchange and long distance telephone services, teletype, transmission of facsimile and data, lease financing, other telecommunications services and sales; and
2. Telecommunications equipment manufacturing, which includes research and development and sales of telecommunications equipment, training, engineering, installation services and distributed products.

The following table sets forth revenues, operating results and supplementary data for the years ended December 31, 1984 and 1983 for each of the Company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1984	1983	**1984**	1983	**1984**	1983
			($ Millions)			
Sales to the public	**$1,147.8**	$1,091.3	**$ 84.9**	$ 98.3	**$1,232.7**	$1,189.6
Inter-segment sales	**—**	—	**85.5**	108.2	**85.5**	108.2
Total revenues	**1,147.8**	1,091.3	**170.4**	206.5	**1,318.2**	1,297.8
Segment operating profit (loss)	**296.5**	284.9	**(4.2)**	12.1	**292.3**	297.0
Interest charges	**(101.3)**	(91.6)	**(6.1)**	(4.4)	**(107.4)**	(96.0)
Income taxes	**(89.2)**	(92.3)	**6.8**	(1.6)	**(82.4)**	(93.9)
Net earnings (loss)	**$ 106.0**	$ 101.0	**$ (3.5)**	$ 6.1	**$ 102.5**	$ 107.1
Identifiable assets	**$2,784.3**	$2,651.2	**$145.6**	$122.2	**$2,929.9**	$2,773.4
Capital expenditures	**$ 338.9**	$ 371.8	**$ 13.5**	$ 8.0	**$ 352.4**	$ 379.8
Depreciation and amortization	**$ 232.5**	$ 221.1	**$ 4.8**	$ 5.5	**$ 237.3**	$ 226.6

Telecommunications operations are conducted in the Province of British Columbia. Manufacturing Operations have plants located in the Provinces of British Columbia, Saskatchewan and Ontario. 32.5% of manufacturing sales to the public were to the export market (26% – 1983).

16. Prior Period Adjustment

As a result of income tax reassessments for the years 1979 and 1980, tax currently payable has been increased by $7,974,000. The portion of this increase representing timing differences has been charged to Income Taxes Deferred. Interest thereon of $1,319,000 has been charged to Retained Earnings as a prior period adjustment. The balance of retained earnings at January 1, 1983 has been restated accordingly.

17. Prior Year Presentation

The 1983 amounts have been reclassified, where applicable, to conform with the 1984 presentation.

Financial Supplement

Quarterly Financial Data

Three Months Ended		March 31	June 30	Sept. 30	Dec. 31	Total 1984
		($ Millions)				
Telecommunications Operations						
	Operating revenues	$278.8	$284.7	$289.4	$294.9	$1,147.8
	Operating expenses	219.4	218.2	208.4	205.3	851.3
	Telecommunications operating earnings	59.4	66.5	81.0	89.6	296.5
Manufacturing Operations						
	Sales	27.2	37.8	33.5	71.9	170.4
	Costs and expenses	33.2	40.5	39.9	61.0	174.6
	Manufacturing operating earnings	(6.0)	(2.7)	(6.4)	10.9	(4.2)
Combined Operating Earnings		53.4	63.8	74.6	100.5	292.3
	Debt service costs	24.1	27.3	28.0	28.0	107.4
	Earnings before income taxes	29.3	36.5	46.6	72.5	184.9
	Income taxes	11.7	15.7	21.5	33.5	82.4
	Net earnings	17.6	20.8	25.1	39.0	102.5
	Less — Preference and preferred share dividends	5.2	5.1	5.0	5.1	20.4
Ordinary Share Earnings		$ 12.4	$ 15.7	$ 20.1	$ 33.9	$ 82.1
Earnings Per Ordinary Share						
	— basic	$ .33	$ .40	$ .52	$ .82	$ 2.07
	— fully diluted	$ .33	$ .40	$ .52	$ .81	$ 2.06
Average Ordinary Shares Outstanding *(Millions)*		38.3	38.3	38.6	43.7	39.7

Current Cost Reporting

(a) **Introduction**
The object of current cost reporting is to provide an assessment of the effect of changing prices on the Company's operations.

During a period of inflation, the current costs of property subject to depreciation may be greater than the costs recorded. Part of that property, however, may have been financed by debt — resulting in a decline in real terms in the amount to be repaid.

(b) **Methodology**
Effective 1983 standards of current cost reporting were recommended for Canada's major corporations by the Canadian Institute of Chartered Accountants. Initially the standards have been regarded as experimental in nature. The following comparative information has been determined in accordance with the standards.

(c) **The Effect of Current Cost on Earnings Statement**
Because provisions for depreciation in the Company's historical statements do

Current Cost Reporting *(continued)*

not take into account the increased cost of replacing the Company's telecommunications and manufacturing properties, the following adjustment to the historical earnings statement is made on a current cost basis. (The effect of restating inventories at current cost is not material):

	1984	1983
	($ Millions)	
Ordinary share earnings	**$ 82.1**	$ 86.2
Current cost adjustment (Depreciation)	**(200.1)**	(188.1)
Ordinary share earnings (loss) under current cost basis	**$(118.0)**	$(101.9)

(d) **Increase in the Current Cost of Property and Inventories**
Under current cost accounting the carrying values of property and inventories at December 31, 1984, represents the Company's estimate of the current cost of maintaining sufficient assets to continue operations at current levels. The following table indicates that the current cost of property and inventory increased at a rate greater than inflation. Ordinary shareholders' equity increased in real terms by $212.1 million, determined as follows:

	1984	1983
	($ Millions)	
Increase in the current cost amounts of telecommunications property, manufacturing property and inventories	**$ 388.1**	$ 585.9
Effect of general inflation	**(176.0)**	(213.8)
Excess of increase in current cost over the effect of general inflation	**$ 212.1**	$ 372.1

(e) **General Purchasing Power, Gain or Loss**
Because the Company financed part of its operations with debt and because of continuing inflation, the amount of that debt declined in real terms. This resulted in a further "real" increase in ordinary shareholders' equity of $54.4 million (a gain in general purchasing power from having net monetary liabilities). The amount has been calculated, using the consumer price index, applied to the average net monetary liabilities outstanding during the year.

(f) **Financing Adjustment**
The Company has financed its operations through a combination of shareholders' funds and borrowed funds. If such financing continues, shareholders will not be called on to provide the whole of the increase in capital needed to support the higher current cost of inventories and telecommunications and manufacturing property. The financing adjustment represents the amount of the changes in the current cost of property and inventories which have been financed through debt. In this case, $132.0 million of the $388.1 million increase has been financed through debt. As pointed out, this benefit falls to the ordinary shareholders since they will not be called on to provide the increase in capital required.

(g) **Schedule of Assets on a Current Cost Basis as at December 31**

	Historical Cost Basis **1984**	Current Cost Basis **1984**	Historical Cost Basis 1983	Current Cost Basis 1983
		($ Millions)		
Telecommunications property (net)	**$2,540.9**	**$4,613.8**	$2,450.8	$4,483.6
Manufacturing property (net) and inventories	**$ 104.8**	**$ 121.1**	$ 82.7	$ 99.2
Net assets (ordinary shareholders' equity)	**$ 805.1**	**$2,894.3**	$ 678.9	$2,728.3

Current cost estimates for buildings, plant and equipment were developed by restating the historical cost property balances from the date of being placed in service, through the use of specific price indices based on the Company's own experiences. In some instances, where internal indices were unavailable, external indices were used. Land is valued at its current or assessed worth for taxes. Current cost depreciation is charged to the current cost income

Current Cost Reporting *(continued)*

statement on the same basis as in the historical cost statement but is calculated on the basis of the average current cost for 1984. Inventories are valued at their current reproduction cost.

(h) **Conclusion**

Management concludes from the above that there has been no impairment of capital employed in the business as a result of general inflation or changes in specific prices experienced. However, absolute reliance should not be placed on the ordinary shareholder equity gains cited above since they are based on management estimates and are not available for distribution to the ordinary shareholders.

Employee Costs

		Telecommunications (Note) 1984	1983	Manufacturing 1984	1983	Consolidated 1984	1983
				($ Millions)			
Total Employee Costs Analyzed as Follows:		**$529.4**	$501.6	**$ 83.6**	$ 79.0	**$613.0**	$580.6
Salaries and Wages as Payment for:	Time on the job	**$376.1**	$351.1	**$ 66.2**	$ 63.7	**$442.3**	$414.8
	Vacations and holidays	**72.4**	69.9	**8.8**	8.4	**81.2**	78.3
	Education Centre training	**4.8**	4.8	**.8**	.2	**5.6**	5.0
	Other	**15.1**	14.1	**2.0**	.3	**17.1**	14.4
		92.3	88.8	**11.6**	8.9	**103.9**	97.7
	Total Salaries and Wages	**468.4**	439.9	**77.8**	72.6	**546.2**	512.5
Related Costs:							
	Company funding to pension plans	**31.9**	28.4	**—**	.9	**31.9**	29.3
	Group medical/dental benefit payments	**10.4**	9.7	**1.8**	2.1	**12.2**	11.8
	Other employee benefits	**3.4**	9.2	**1.1**	.6	**4.5**	9.8
	Canada Pension Plan/Quebec Pension Plan	**5.0**	4.6	**.9**	.8	**5.9**	5.4
	Unemployment Insurance	**9.2**	8.6	**1.5**	1.5	**10.7**	10.1
	Workers' Compensation	**1.1**	1.2	**.5**	.5	**1.6**	1.7
	Total Related Costs	**61.0**	61.7	**5.8**	6.4	**66.8**	68.1
	Total	**$529.4**	$501.6	**$ 83.6**	$ 79.0	**$613.0**	$580.6

Taxes Levied by Governments in Canada

	1984	1983
	($ Millions)	
Income taxes		
Federal	**$ 56.9**	$ 65.1
Provincial	**25.5**	28.8
Property and machinery taxes	**47.5**	44.5
Capital taxes	**2.7**	3.7
Payroll taxes *(Note)*	**18.2**	17.2
	$150.8	$159.3

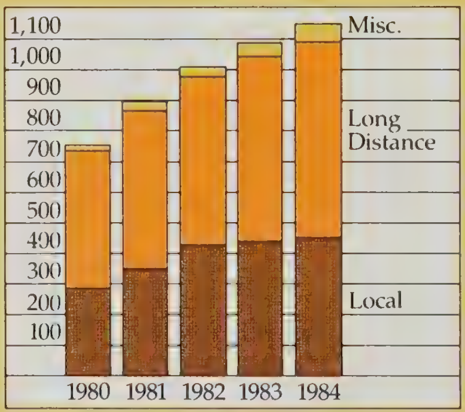
NOTE: Includes amounts capitalized

British Columbia Telephone Company

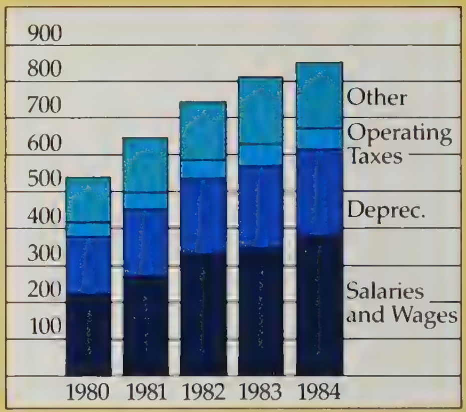
Consolidated Five-Year Statistics

Selected Income Items *($ Millions)*	Telecommunications operating revenues
	Telecommunications operating expenses
	Salaries and wages expense
	Provincial, municipal and other taxes
	Other operating expense
	Depreciation
	Manufacturing sales
	Manufacturing cost of sales
	Manufacturing selling and administrative expenses
	Combined operating earnings
	Debt service costs
	Income taxes
	Preference and preferred dividends
	Ordinary share earnings
	Ordinary share dividends
Financial Ratios	Earnings per ordinary share
	Dividends declared per ordinary share
	Equity per ordinary share
	Percent return on average ordinary share equity
	Percent return on average invested capital
	Percent debt to total capitalization

Telecommunications Operating Revenues *($ Millions)*

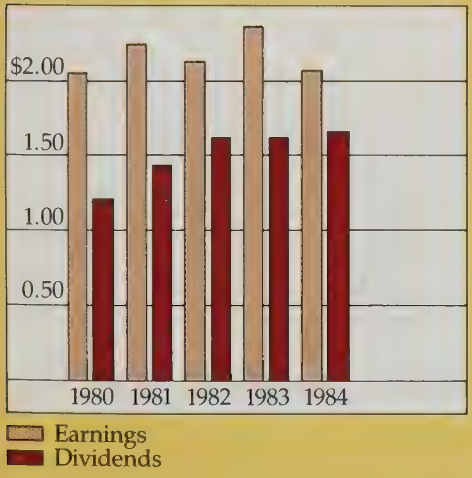


Telecommunications Operating Expenses *($ Millions)*

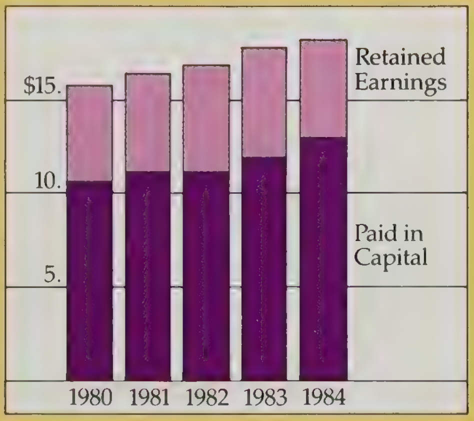


1984	1983	1982	1981	1980
$1,147.8	$1,091.3	$1,009.4	$ 894.3	$ 754.5
851.3	806.4	741.3	643.1	534.7
380.0	349.1	331.3	274.3	220.9
59.9	57.0	50.4	41.7	33.5
178.9	179.2	157.8	143.6	121.8
232.5	221.1	201.8	183.5	158.5
170.4	206.5	243.6	188.9	188.4
143.7	170.7	209.5	169.5	162.4
30.9	23.7	21.8	15.2	13.5
292.3	297.0	280.4	255.4	232.3
107.4	96.0	107.8	91.9	76.2
82.4	93.9	83.7	78.2	76.5
20.4	20.9	16.7	16.8	17.7
82.1	86.2	72.2	68.5	61.9
66.1	58.0	54.8	43.6	36.4
$ 2.07	$ 2.36	$ 2.11	$ 2.23	$ 2.04
$ 1.66	$ 1.60	$ 1.60	$ 1.42	$ 1.20
$ 18.43	$ 17.78	$ 16.83	$ 16.36	$ 15.73
11.52	13.77	12.81	13.84	13.48
10.68	11.18	11.05	11.00	10.22
52	54	56	55	55

Earnings and Dividends Declared *(per Ordinary Share)*



Equity per Ordinary Share



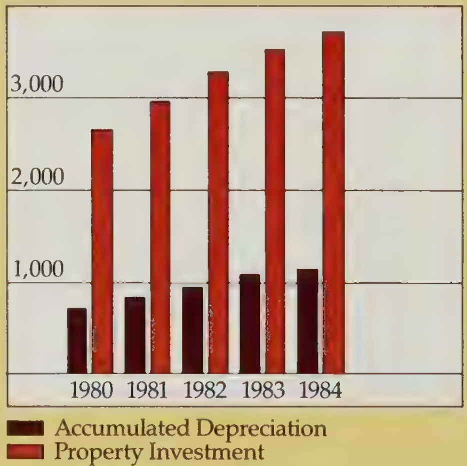
British Columbia Telephone Company

Consolidated Five-Year Statistics

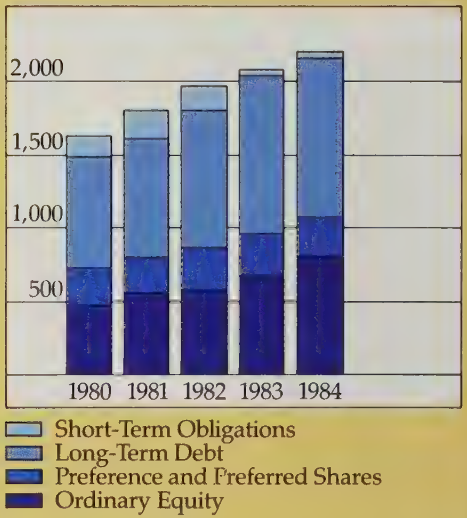
Selected Balance Sheet Items *($ Millions)*	Total property, at cost
	Accumulated depreciation
	Total capitalization
	Short-term obligations
	Long-term debt
	Preference and preferred shares
	Ordinary share equity
Telecommunications Statistics	
	Gross capital expenditures *($ Millions)*
	Customer lines in service *(Thousands)*
	Percent electronic switched customer lines
	Net property investment per customer line *($)*
	Local calls completed *(Millions)*
	Long distance calls completed *(Millions)*
	Employees at year end *(Note)*
	British Columbia Telephone Company
	Canadian Telephones and Supplies Ltd.
	Number of shareholders at year end
Manufacturing Statistics	
	Domestic sales *($ Millions)*
	Export sales *($ Millions)*
	Gross research and development expenditures *($ Millions)*
	Employees at year end *(Note)*
	Microtel Limited
	Microtel Pacific Research Limited

NOTE: Regular full time employees

Property Investment *($ Millions)*

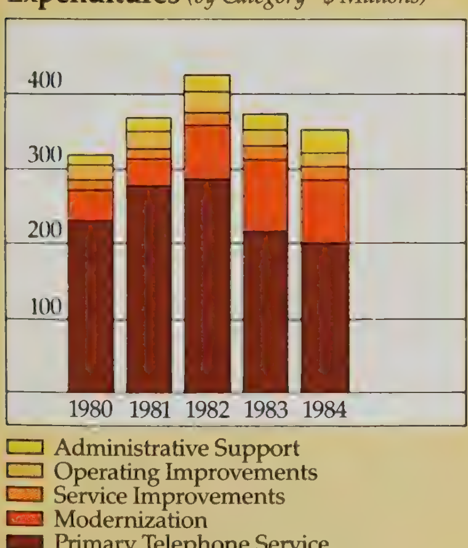


Capital Structure *($ Millions)*

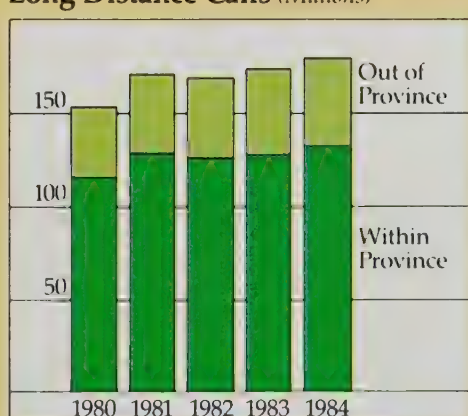


1984	1983	1982	1981	1980
$3,716.6	$3,529.0	$3,255.5	$2,930.4	$2,623.6
1,131.4	1,041.2	907.9	795.3	673.2
2,213.7	2,059.2	1,952.8	1,784.7	1,624.2
49.2	47.1	170.4	193.8	149.8
1,096.5	1,060.5	924.0	792.0	745.8
262.9	272.7	280.7	239.6	249.6
805.1	678.9	577.7	559.3	479.0
$ 338.9	$ 371.8	$ 424.8	$ 370.2	$ 318.9
1,391	1,361	1,325	1,309	1,255
50.5	40.5	39.9	38.0	32.9
$ 1,827	$ 1,801	$ 1,744	$ 1,606	$ 1,536
3,639.6	3,229.2	3,140.0	3,165.7	3,034.7
180.2	173.5	168.4	171.1	152.6
13,268	13,477	14,063	14,406	13,235
705	834	863	859	768
32,045	29,949	27,692	26,409	28,016
$ 142.8	$ 181.4	$ 208.8	$ 161.4	$ 133.3
$ 27.6	$ 25.1	$ 34.8	$ 27.5	$ 55.1
$ 23.6	$ 15.4	$ 13.8	$ 10.6	$ 9.1
2,284	2,187	2,638	3,038	2,935
319	297	278	263	241

Telecommunications Capital Expenditures *(by Category–$ Millions)*



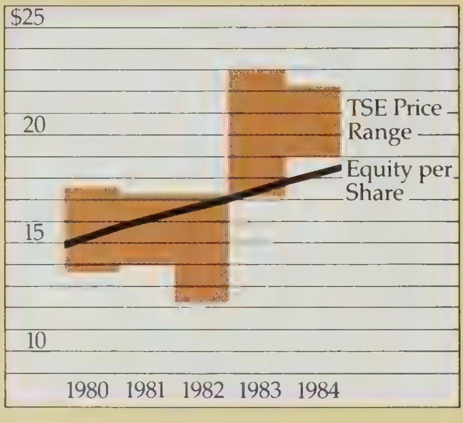
Long Distance Calls *(Millions)*



Shareholder Information

	1984	1983
Number of ordinary shareholders	**17,509**	14,409
Number of shares outstanding at December 31	**43,688,620**	38,175,411
Volume of shares traded	**6,838,986**	7,929,001
The Toronto Stock Exchange Price Ranges (High-Low)	**$22¼-19**	$23-17⅛

Equity per Ordinary Share and Market Trading Range



Federal Government Valuation Day Value (December 22, 1971) **$12.75/Share**

Principal Ownership

The Company's outstanding ordinary shares totalled 43,688,620 as at December 31, 1984.

GTE Corporation (GTE) of Stamford, Connecticut, and its subsidiary, Anglo-Canadian Telephone Company of Montreal, were at December 31, 1984 the owners of 22,009,536 shares, or 50.38% of the total ordinary shares outstanding (50.32% fully diluted).

Conversion

The $2.32 convertible subordinate preferred shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1984, 26,898 or 1.1% of such shares had not yet been converted.

Dividend Reinvestment and Share Purchase Plan

The Company maintains a plan whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional contributions. The Plan provides a discount of 5% on the price of ordinary shares purchased with reinvested ordinary share dividends and allows for optional contributions of up to $5,000 per calendar quarter for the purchase of additional ordinary shares. For an Offering Circular explaining the Plan, please write to:
Investor Relations, 19th Floor, 3777 Kingsway, Burnaby, B.C. V5H 3Z7

Ordinary Share Dividends

Dividends are payable quarterly on the first day of January, April, July and October. In 1984, dividends declared amounted to $.40 per share for the first and second quarters, increasing to $.43 for the third and fourth quarters, for an annual total of $1.66.

Market Trading

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

Directors

(a) **Gordon F. MacFarlane**
Chairman and
Chief Executive Officer
British Columbia Telephone
Company, Burnaby, B.C.

(b) *left,* **Justin V. Harbord**[1]
Company Director
Victoria, B.C.

right, **Horace B. Simpson**[3]
Vice-President
Okanagan Holdings Ltd.
Kelowna, B.C.

(c) *left,* **Gerald H. D. Hobbs**[2]
Private Investor
Vancouver, B.C.

right, **W. Thomas Brown**[1]
Honorary Chairman
Odlum Brown Limited
Vancouver, B.C.

(d) *left,* **Hugh R. Stephen**[2]
Company Director
Victoria, B.C.

right, **M. Rendina K. Hamilton, Q.C.**[3]
Barrister and Solicitor
Kelowna, B.C.

(e) *left,* **John W. Pitts**[1]
President and
Chief Executive Officer
MacDonald, Dettwiler
and Associates Ltd.
Vancouver, B.C.

right, **Victor F. MacLean**[3]
Company Director
Vancouver, B.C.

(f) *left,* **James L. Johnson**[2]
Senior Vice-President
GTE Corporation and
President and
Chief Operating Officer –
Telephone Operating Group
GTE Service Corporation
Stamford, Conn.

right, **Allan L. Rayfield**
Senior Vice-President
GTE Corporation and
President and
Chief Operating Officer –
Diversified Products Group
GTE Service Corporation
Stamford, Conn.

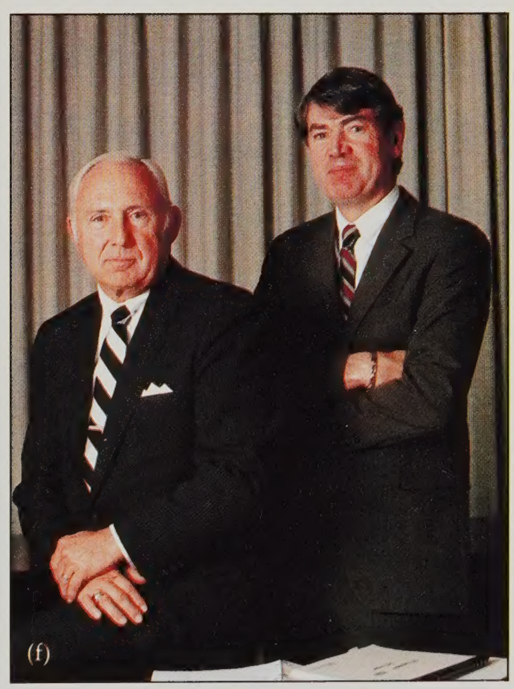

(a)


(b)


(c)


(d)


(e)


(f)

Member of:
1 Audit Committee
2 Salary Committee
3 Pension Trust Committee

British Columbia Telephone Company

Officers

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

(a) Terence F. Heenan
President and
Chief Operating Officer

(b) *left,* Betty J. Rumford
Assistant Secretary

right, K. Donald A. Morrison
Vice-President
General Counsel and Secretary

(c) *left,* Colin G. Patterson
Vice-President
Corporate Development

right, James A. MacInnes
Vice-President
Corporate Communications

(d) *left,* Leo J. Dooling
Vice-President
Revenue Requirements

centre, J. Neil Stewart
Comptroller

right, Donald W. Champion
Vice-President
Administration

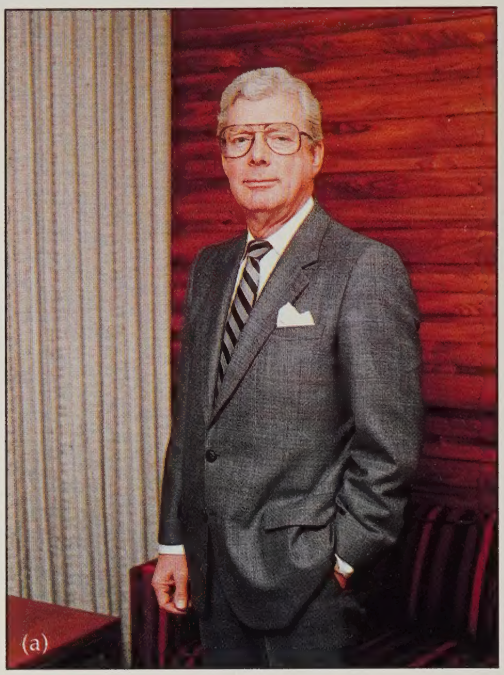
(e) *left,* D. Barry McNeil
Vice-President
Corporate Finance and Treasurer

right, Peter C. Watson
Assistant Treasurer

(f) *left,* Gilbert F. Auchinleck
Vice-President
Technical Support

centre, Robert H. Stevens
Vice-President
Supply, Transportation and Buildings

right, W. K. (Bill) McCourt
Vice-President
Network Marketing


(a)


(b)


(c)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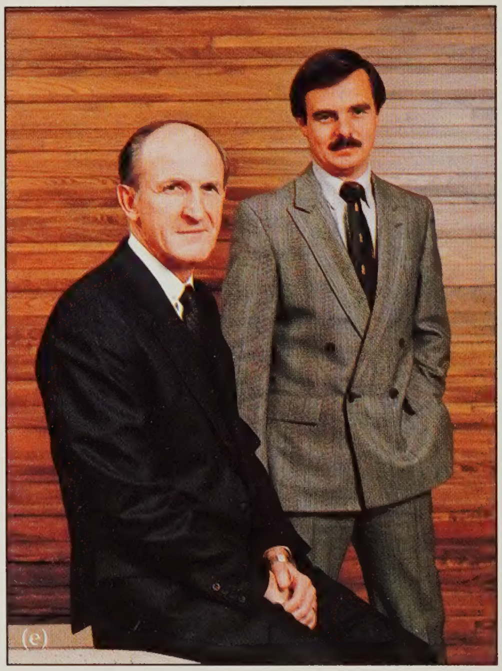
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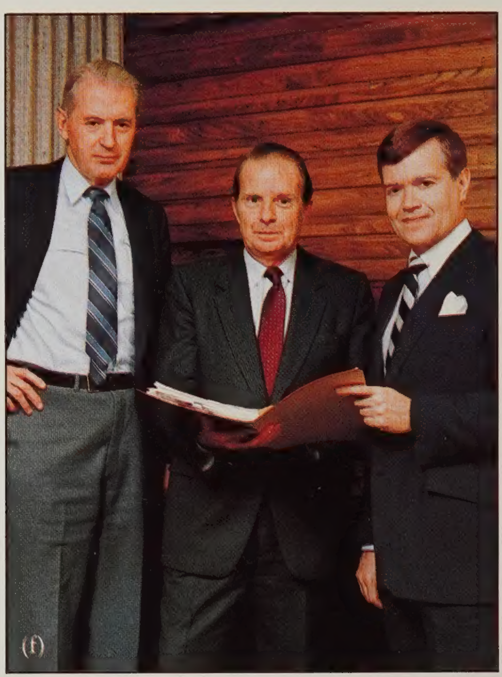
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British Columbia Telephone Company Ninety-Third Annual Report 1984

Incorporated by Special Act of the Parliament of Canada, April 12, 1916

Head Office

3777 Kingsway
Burnaby, B.C.
V5H 3Z7

Transfer Agent and Registrar

Montreal Trust Company

Duplicate Annual Reports

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting

The Annual General Meeting of the Shareholders will be held on Thursday, March 21, 1985 at 11:00 a.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

Additional information or copies of the Annual Report may be obtained by writing to Investor Relations at the Head Office address above. Residents in the Vancouver area may also call 432-4410, while residents elsewhere in British Columbia may call free of charge 112-800-663-9405. From elsewhere in Canada, please call free of charge 1-800-663-9405.

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